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Hodnocení rentability společnosti Alibaba

Profitability Assessment of Alibaba Company

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Bibliography
List of Abbreviations
Declaration of Utilisation of Results from the Bachelor Thesis
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Annexes

References:

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The declaration

"Herewith I declare that I elaborated the entire thesis, including all annexes independently."

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Contents

1. Introduction

ALIBABA group is one of the largest electric commerce companies in the world， with the development of internet， it is more and more popular for people and caused the profit increase. In this thesis, we used the method of financial analysis to know the financial situation of the past and present. Through the method of financial analysis， the behavior of individual and company might be influenced. For individual， the investors and creditor accord to the assessment， and make a decision whether investing and borrowing. For company， the managers would make a change to improve the financial situation.

The goal of the thesis is the analysis of profitability and assesses the financial position during 4 years (2012-2015). Secondly， we compared with competition within same industry， and show whose financial situation is better.

There are five chapters in this thesis. The first and the last chapters are introduction and conclusion，the other are main chapters，the financial analysis methodologies，vertical and horizontal common size and the assessment profitability of ALIBABA group.

The chapter 2 is principle part that introduces the four parts, at the beginning is the three financial statements include the balance sheet, income statement, and cash flow. The second is about two common size analyses: horizontal common size analysis and vertical common size analysis. Thirdly, we described the four types of financial ratio: liquidity ratio, solvency ratio, profitability ratio and activity ratio. The last is about DuPont analysis.

In chapter 3, we introduced the ALIBABA group detail at beginning. The introduction includes the history and headquarters, the main business of ALIBABA, the oversea business, the number of customer and staff, the main competition within the same industry and the international status. Then we made some tables and figures, and then used vertical common size analysis and horizontal common size analysis to describe and analyze the trend of the income statement and balance sheet.

In chapter 4, there are four main ratios include profitability ratio, solvency ratio, activity ratio and liquidity. We used the financial ratio analysis to evaluate the financial situation of ALIBABA group with the form of figures and described the trend of ratios. Then we used DuPont analysis to discompose return on equity in order to the deep analysis. The last we

compared the competition AMAZON under DuPont analysis， and then calculated the recommendation in order to know under what financial situation ALIBABA can be better than competition.

2. Description of the Financial Analysis Methodology

In the section， we will learn some important methods of financial analysis. These methods include financial statement， common size analysis， financial ratio and pyramidal decomposition. After the introduction of methods， we will use them to analysis the actual data of the company.

2.1 Financial Analysis

Financial analysis is process which the company use to judge， which means companies use it to assess their current or future financial situation and operating result, the ultimate target is help decision maker to forecast financial situation and operating result, and then it is better for a decision maker to according to useful information and make a final decision.

2.2 Financial Statement

The financial statement is a basis of financial analysis， the financial analysis cannot do without financial statements. It reflects a company present and past performance， it is better for investors and creditors know the financial situation of company and decision of economic policy.

In the thesis， we are going to introduce three parts include the balance sheet， income statement and cash flow.

2.2.1 Balance sheet

The balance sheet is one of the important financial statement， the main function is to show the operating situation of companies. It uses the static form to reflect all assets， total liability and equity of shareholder of financial statement at the specific date. The form of balance sheet can help reader use less time and be easier to understand the statement.

The balance sheet can be divided three parts：Assets，liability，equity of shareholders. Asset is an economic resource，it is usually produced by investing activity，operating activity and raising activity. It is classified two part：current assets，non-current assets.

Liability represents capital had been borrowed from banks or other institutions，and had obligation repaid to creditors at predetermined in future. It as well is divided into current liability and long-term liability.

Equity represents difference of total assets minus total liability，it means shareholder to invest in the company and contributed by company profit，reflecting the portion of capital belonging to owners or shareholder.

$$\text{Total assets} = \text{Total liability} + \text{Total equity} . \quad (2.1)$$

Table 2.1 the overall structure of balance sheet

ASSETS	EQUITY+LIABILITY
LONG-TERM ASSETS	EQUITY
CURRENT ASSETS	LIABILITY

From table 2.1，it is obvious to see the assets is composed of long-term assets and current assets. The long-term assets separate with current assets，which means it cannot be changed in the current period and within 1 year, its value is reduced by reduction of depreciation. On the other hand，the current assets can transfer assets into cash in current period and within 1 year.

Liability and equity represents company uses this capital to finance in its assets. Liability is composed by current liability and long term liability. Current liability refers to capital be borrowed must pay back within one year. Long-term liability means borrowed capital exceed one year.

Table 2.2 the detailed structure of balance sheet

	TOTAL ASSETS	A+B+C		EQUITY+LIABILITY	A+B+C
A	Long-term assets	A1+A2+A3+A4	A	Equity	A1+A2
A.1	Tangible assets		A.1	Capital stock	
A.2	Intangible assets		A.2	Retained earnings	
A.3	Financial investment				
A.4	Other long term assets				
B	Current assets	B1+B2+B3+B4+B5	B	LIABILITY	B1+B2+B3+B4+B5+C
B.1	Inventory		B.1	Long term debt	
B.2	Account receivable		B.2	Short term debt	

B.3	Marketable securities		B.3	Accounts payable	
B.4	Cash and cash equivalent		B.4	Notes payable	
B.5	Other current assets		B.5	Accrued expenses	
C	Other Assets		C	Other liability	

According to table 2.2, it is clear to find long term assets is made by tangible and intangible assets, financial investment and other long term assets. Then, the current assets break down inventory, account receivable, cash and cash equivalent. Finally, the long term assets and current assets compose total assets.

The equity includes capital stock and retained earnings. Total liability consists of long-term debt and current debt. The current debt includes accounts payable, notes payables and accrued expenses.

2.2.2 Income statement

Income statement as well is one of important financial statement which used to measure the financial performance and show the profit or loss the company generated at the specific period. In the income statement, there are two important factors: Revenue, Expense (Costs). The formula is:

$$\text{Revenue} - \text{cost} = \text{Net profit or loss} . \quad (2.2)$$

Revenue refers to company receive capital through selling product and service during the specific period. Expenses is used for operating company and generated product， in order to maximize profit， companies must reduce expenses and increase revenue. The net profit or loss is a difference of revenue and expenses， generally， a company work hard to increase revenue and keep expense minimum for the increase in net profit.

Table 2.3 the structure of income statement

A	**Net revenue**	
B1	Cost of goods sale	
B2	Other cost（marketing，administrate，advertising，etc.）	
C	**Operating income**	=A-B1-B2
D	Net financial item	

E	**Earn before tax**	=C +or- D
F	Tax	
G	**Net income**	=E – F

According to the table 2.3，the operating income is equal to revenue minus cost，the cost is a classified cost of good sales and other cost，other cost include marketing，administrate，selling，depreciation，etc. Net financial item is influenced by financial revenue and financial cost，which mean the interest company receives minus interest payment，if the interest receive is higher than payment，the net financial item will be positive，otherwise it will be negative.

Earn before tax is equal to operating income plus or minus net financial item，which shows how much company earn after the cost of sales，other cost and interest have been deducted.

The net income is caused after earn before tax minus tax，it represents the total earning of equity holders of the company.

2.2.3 Cash flow statement

The cash flow statement is a kind of financial statement which provides information about cash of company inflow and outflow，and reader can be easy to understand where the cash came from and spent，how company is operating.

There are three main activities comprise cash flow statement. Operating activity means the cash outflow and inflow is affected by the daily business operation. The inflow in operating activity includes cash sale，the collection of accounts receivable. The outflow include salaries，taxes，and other operating expenses. Investing activity refers to company sell and buy long term assets，including property，equipment，intangible assets，etc. Financing activity has an association with equity and long-term liability, the inflow include obtain cash from issuing share and bond，borrowing. The formula1 of cash flow is：

$$\text{Cash flow from operating activity} + \text{cash flow from investing activity} + \text{cash flow from financing activities} . \quad (2.3)$$

Cash flow has two methods, direct method，and indirect method. Under the direct method, it shows the cash outflow and inflow, which means cash from customers and paid to supplier in operating activity. On the other hand, the indirect method focuses on

adjustments which the cash flow from operating activity transfer income into cash and made for non-cash expense, non-operating items and changing in operating accruals.

By comparison between indirect method and direct method, there are no difference in cash flow from investing and financing activity. In general, many companies prefer to the indirect method.

Table 2.4 the structure of indirect cash flow statement

	+Net income
	+Depreciation
	- Net inventories
	- Net accounts receivable
	+ Net accounts payable
CF_{OPE}	**= CASH FLOW FROM OPARETING**
	- NET INVESTMENT
CF_{INV}	**= CASH FLOW FROM INVESTING**
	+ Net borrowing, Net Retained earnings, Net sales of stocks
	- dividends
CF_{FIN}	**= CASH FLOW FROM FINANCING**
CF_{TOTAL}	**= CF_{OPE}+ CF_{INV}+ CF_{FIN}**

In the result situation when income statement profit, the cash flow statement can be negative and positive. On the other hand, when income statement loss, the cash flow statement can also be positive and negative. So, even the company is profitable, but if they have not enough cash and cash equipment, they will go bankrupt.

2.3 common-size analysis

Common size analysis shows the percentage of financial ratio and common figure. It is better for investors and management to be easier to analyze company over time and compare with competitions of peer. In the thesis， it will be used in three statements of financial statement and financial ratio with two types of common-size analysis.

Vertical common size analysis is a popular method of financial statement analysis that shows each item on a statement as a percentage of a base figure within the statement.

Generally, for the balance sheet the total assets and total liability，and equity of shareholder is base figure. All items of assets are shown as a percentage of total assets. The current liability, long-term liability and equity are shown as the percentage of the total liability and equity of shareholder. For the income statement, revenue is benchmark and base figure. The items include cost of sales, operating expense, tax, and so on. These items are shown as a percentage of revenue.

Horizontal common size analysis shows changes in the amounts of corresponding financial statement items over a period of time, it is useful to identify trends and growth in accounts over time. In general, there are two and more periods in horizontal common size analysis. The earliest period is base figure and benchmark, the items of statement in later period are used to compare with the items of statement in the earliest period with the form of percentage.

By comparison with horizontal and vertical common size method, the different is each account in vertical common size is restarted each period as proportion of reference account. Each account in horizontal common size is instead compared with the same value of items in the base period.

2.4 Financial Ratio Analysis

Financial ratios are that influenced between two and more data on financial statement，it is useful to reflect performance and financial situation of a company. It is also better for manager，share holder and creditor to know and analyze the trends in future and compare with competition, according to the situation and make some change.

Financial ratio analysis can be compared in different area，comparison between companies，industry and also between different periods for one company，between a single with its industry average. In this thesis，we will use financial ratio to compare different periods for one company as well as between others company.

Because there are many items on financial statement and according to the aspect of the business，the financial ratio can be classified include activity，solvency，liquidity and profitability.

2.4.1 Profitability ratio

Profitability ratio is used to measure the ability of a company to generate earning with

respect to the revenue, assets, equity and liability. It is basis for the development and survival of a company, reflecting the competitive position and the level of management.

No matter what Profitability ratio is good or bad，it will influence the behavior of investors and creditors. If the profitability ratio of a company is bad，for investors，they will be reluctant to associate with the company，because the stock market and potential dividend will be influenced and investors receive less. For creditors，they will have weak ability to pay back the amount they owed.

There are some major ratios to measure profitability ratio：

The operating profit margin (return on sales) shows the percentage of revenue left over after product has been paid and paying cost of production. As the formula：

$$\text{OPM} = \frac{EBIT}{Revenue} \ . \qquad (2.4)$$

OPM is operating profit margin；EBIT is earning before interest and tax，operating income; R is revenue.

Operating profit margin is used to analyze how much company earnings before interest and tax on per unit revenue，which means if the OPM is higher，the operating income will receive more. In contract，operating income will earn less.

There have some factors influence OPM，the main factors are production and operating cost，on the side of production，if the production efficiency of a company is higher than competitions in the same industry, the company will get more revenue through selling goods with lower price and higher quality, it also has the ability to charge it.

On the cost side，the higher operating cost in production will influence earnings before interest and tax decreased，caused reduction of OPM. On the other hand，if the operating cost is lower，it is better for operating profit margin.

So，the healthy operating profit margin is required company have effective production as well as the cost advantage than competitions in same industry.

The net operating profit margin indicates the profitability be generated from revenue after deduction of all cost，interest and tax，and show how much company earned convert into profit. As the formula：

$$\text{Net profit margin} = \frac{Net\ income}{Revenue} \ . \qquad (2.5)$$

Where EAT is earning after tax and net income. R represents revenue.

The trend of net profit margin is similar to operating profit margin，if the net profit margin is high，the net income will earn more. So，it is important for creditors and investors，for creditors，the high NPM illustrates they have enough capital to pay back the short-term liability. For investors，the high NPM means how good a company transfer revenue into profit and available for investors.

The high operating profit margin reflects the production in company is effective and has good performance in cost management. On the other hand，the low NPM indicates company spends too much in expense，it would cause the price of product higher than competition within the same industry as well as the decrease of sale，then revenue as well decrease. In order to the high NPM, company needs to control the budget to keep cost minimum.

The operating profit margin and net profit margin are used to measure how much per unit profit earn from revenue, but the different is NPM without interest and tax. They cannot use to measure how much cash company earned，because the income statement includes non-cash items，like receivable and depreciation.

The return on assets is used to measure how profitable a company has an association with its total assets，and how much profit be created by per unit of assets. It is a useful indicator for comparing competitions within same industry. As the formula：

$$\mathrm{ROA} = \frac{EBIT}{Revenue} \ . \qquad (2.6)$$

EBIT is earning before interest and tax or operating Profit. A is total asset.

Since some investors would like to use operating return before the cost of borrowing capital，they try to add interest expense back into the earnings after tax.

ROA is an indicator which effect of comprehensive utilization of corporate assets，but also to measure ability a company takes advantage of liability and equity of shareholder to achieve profit. The higher ROA company has，which mean the higher efficiency of using assets and create more profit，the company has good performance in assets management.

ROA should better to measure competition under same industry, the comparison between two and more different type of companies is meaningless because the more capital-intensive companies，the more difficult to get high ROA，like oil enterprise，motor

companies, etc. They need to make more loan to convert into assets to operate. In contract，some companies like high-technology firms，clothing design company，advertisement，etc. Dose not need more capital to get equipment and achieve high ROA.

The return on equity is used to measure the indicator that the equity of shareholder creates net profit. ROE shows how efficiency the company generates net income from equity and how well a company uses investment to get earning. The computation is as follows：

$$\text{ROE} = \frac{EAT}{Equity} \ . \qquad (2.7)$$

Where EAT is net income or earning after tax. E is total equity.

Equity includes common stock，preferred stock，etc. ROE is equal to a fiscal years，which means be calculated before dividend paid to common stock holder，after pay dividend to preferred stock holder. So，when we measure the ROE，the preferred stock is not included in total equity.

ROE is also an indicator of how effective management is at using equity financing to fund operations and grow the company, the higher ratio ROE has，the more efficient management that company uses its equity to earn better return for investors.

For investors，they want to see high ROA，because it can indicate company receive more profit from used equity efficiency, and investors are possible to get more dividend. So，they are used to calculate ROE at the beginning of the period and the end of period，it is better to track company trend and progress.

In general，financial analysts consider the range of ROE is from 15% to 20%，which represents the attractive level of investment quality.

2.4.2 Activity ratio

Activity ratio uses to measure the ability of company which transfers different items within its balance sheet into cash or revenue. The activity ratios are important for managers to illustrate how effective the company has good performance in assets management and using.

The high activity ratio means enterprise is able to convert its assets into cash or sales, the more efficient it runs. Activity ratios become more meaningful when compared competition within the same industry.

The assessment of activity ratios is in the form of cash and revenue based on its assets, liability and equity of shareholder include inventory turnover ratio, receivable turnover， and payable turnover.

The inventory turnover is an efficiency ratio that showing how many times the company uses up its goods or products and receives return over a given period. It can be illustrated how effective in inventory management. In general, it is calculated as:

$$\text{Inventory turnover} = \frac{Revenue}{Inventory} \ . \qquad (2.8)$$

The inventory means the products are impossible to sell out during the short period after production, but each company would like to sale out quickly and the last need to be inventory. So, when the inventory turnover is higher, the better operating situation company has and the amount of inventory will decrease.

In contrast, if the inventory turnover is low, which mean a large amount of inventory will be accumulated and causes the cost of saving and management increase. It is bad for the income of company.

The inventory turnover is better to compare competition within the same industry, because different types of companies have different standard. The car dealer and market retailer are significant examples.

The function of inventory days is similar with the inventory turnover， it is also used to measure how quickly a company converts the inventory into cash or revenue. The computation is as follow:

$$\text{Inventory days} = \frac{Inventory}{Revenue} \cdot 360 \ . \qquad (2.9)$$

There are two different between inventory days and inventory turnover. The first according to the computation, inventory days is used to measure how many day company transfer the inventory into revenue, the Inventory turnover is measure how quickly the inventory be converted into revenue. Secondly, the lower ratio of inventory days, the more efficient company has good performance in inventory management, but the lower ratio of inventory turnover reflects the low ability company deals with inventory.

The receivable turnover is the number of time that company converts receivable into cash or revenue at specific period， and be used to measure the indicator of which the

management and flow speed of receivable. As the formula：

$$\text{Receiveble turnover} = \frac{Revenue}{Receiveble} \ . \tag{2.10}$$

It indicates how efficiently a company manages its receivable. If the ratio is 3, it means the company collected their receivable and transfer into cash for 3 times at given period of time.

The high receivable turnover illustrates the company manages efficiently in credit it issues and credit collection, which means it is possible for company has more times to receive actual cash. Alternatively, the low receivable turnover reflects company would need the longer period to receive cash. It may influence the cash flow.

The receivable days shows how many day company collects the payment from its client. It is useful for determining how efficient the company is at receiving whatever short-term payments it is owed.

$$\text{Receiveble days} = \frac{Receivables}{Revenues} \cdot 360 \ . \tag{2.11}$$

Where 360 is the number of days in one year.

The higher receivable days illustrates the company will use more period to collect the receivable from its customer and the low efficient credit and collection. In contrast, the lower receivable days, which means the higher ability to receive cash back.

The payable turnover is used to measure how many times a company pays back all they owed to suppliers. In the other words， it shows the ability of company pay off by comparing net credit purchases to the average accounts payable.

$$\text{Payable turnover} = \frac{Purchases}{payables} \ . \tag{2.12}$$

The ratio shows how quickly company pays off supplier and creditor. Therefore， the higher payable turnover， the more frequently and regularly company pays off， and the supplier receive payback more quickly. However， if the payable turnover is lower， the company will need longer time to pay off， the production can be influenced in future.

The payable days is similar to the payable turnover， they are used to show how quickly it takes company to pay off payable.

$$\text{Payable days} = \frac{Payables}{Purchases} \cdot 360 \ . \tag{2.13}$$

The formula is equal to payable turnover multiply 360 days，it shows how many days company pay off all they owed to suppliers. The different between payable turnover and payable days is that payable turnover reflects the frequency，payable days represents the number of days.

The total assets turnover measures ability of company to generate revenue by its assets, it also reflects how Efficiency Company uses and manages its assets. The computation is as follow：

$$\text{Total assets turnover} = \frac{Revenues}{Total\ assets} . \quad (2.14)$$

The ratio shows how much revenue company generated from used its assets. If the result of ratio is 0.6，which means each unit of assets can generate the revenue of 0.6.

The high ratio means the company has good performance in assets management and uses the assets to generate sales efficiently. Alternatively，the lower ratio reflects is not using assets efficiently and the revenue may be decrease，sometime it illustrates there are some problems in management and production.

The total assets turnover is better to compare competition within same industry，because different types of companies have different standard. Just like the retailer and oil company，oil company needs more assets（equipment，truck，land，etc.）to operate than retailer， in general，the total assets turnover of retailer is high than that in oil company.

2.4.3 Solvency ratio

The solvency ratio is also called leverage ratio，it indicates ability of company to meet its long-term debt and evaluates the debt level of company. It as well reflects whether a company has enough cash flow to meet its liability.

The lower solvency ratio represents the company has greater possibility to default on its obligation, the creditors will have risky to receive capital. On the other hand, the higher solvency ratio, the more cash follow company uses to pay off its liability and other obligation, the more creditworthy company has.

The common solvency ratios include debt ratio, debt-to equity ratio, interest coverage.

The debt ratio is used to measure the proportion of the total assets financed with debt, which indicates the financial risk of company that total assets may be not sufficient to pay

off its debt and obligation.

$$\text{Debt ratio} = \frac{Total\ debt}{Total\ assets} . \tag{2.15}$$

The ratio shows how many assets the company needs to sell for paying off its liability. The low debt ratio indicates the company uses total assets to meet its obligation efficiently. The high debt ratio means high risk the investor and debt holder take, because the company may have not assets to pay off liability, it will be hard for company to raise more capital in future.

So, each industry has their own standard, but in general, the 0.5 is the reasonable ratio. If the ratio is too low, which means company did not use external fund efficiently.

The debt-equity ratio shows the percentage of equity of shareholder and liability used to finance assets. As the formula;

$$\text{Debt to equity} = \frac{Total\ debt}{Equity} . \tag{2.16}$$

According to the ratio we can find，if it lower than 1，it means the number of total debt is larger than total equity, which means the earning of investors more than creditors. In contrast，the number of total debt is smaller than equity，the investors earn more.

The ratio has different standard in the different industry. Generally，the companies of capital-intensive industry are above 2，for example the auto manufacturing. But the companies in high-technology field are close to 0.5 even less，like the mobile phone companies.

The financial leverage is used to measure the number of debt that company uses to purchase assets，though the formula has not debt，but it can be reflected through the relation between the assets and equity.

$$\text{Financial leverage} = \frac{Total\ assets}{Total\ equity} . \tag{2.17}$$

The high financial leverage illustrates the proportion of total equity is low，which means the more assets through the using of liability. In contrast，the low financial leverage reflects company transfer more equity into assets.

Due to the total assets is equal to equity plus liability. Therefore，the financial leverage is always bigger than 1. If the ratio is 1that indicates the equity is same with assets，and the number of liability is nothing.

The interest coverage is used to determine whether the company has ability to pay interest on its debt.

$$\text{Interest coverage} = \frac{EBIT}{I} . \quad (2.18)$$

Where the EBIT is earning before interest and tax or operating income. “I” means interest.

The high interest coverage is favorable，if the ratio is lower than 1，which represents the operating income is smaller than interest payment ，company has not ability to pay interest and would not receive financing from banks in future.

If the ratio is equal to 1，company just has enough money to pay interest, but its net income may be zero and negative，then there have no dividend for investors. If the ratio more than 1, it means that the company is making more than enough money to pay its interest obligations with some extra earnings left over to make the principle payments.

So，most of creditors and bank glad to make a loan for the company which with the ratio more than 1.

2.4.4 Liquidity ratio

Liquidity is financial metrics that measure ability of company to pay its short term debt obligation. It also reflects how quickly and efficiently assets are converted into cash to pay off its short-term liability obligation.

The higher ratio of company，the more likely company has able to cover its short-term liability. The low liquidity ratio，it is difficult for company to raise enough money and transfer its assets into the cash.

The current ratio is the current assets relative to the current liability of a company. It is a useful ratio that reflects an ability of a company to pay off its short term liability through its current assets. The formula is as follow：

$$\text{Current ratio} = \frac{Current\ assets}{current\ liability} . \quad (2.19)$$

The higher current ratio，which means the company can be easier to make the debt payment, If the ratio under 1 that illustrates it is not health finance，and the company is unable to pay off its current liability, even the company has to sell its fixed assets to deal with the problem.

On the other hand，if the ratio is higher than 3, though the company has enough money

to pay off the short-term liability. However， when the ratio more than 3， the company may not uses and manages its current assets efficiently.

So， it is better for company to keep the current ratio stable.

The quick ratio is similar to current ratio， it is also used to measure the ability of company to uses current assets to meet current liability， but the different use current assets minus inventory and divided by current liability. Shown as formula：

$$\text{Quick ratio} = \frac{current\ assets - inventory}{current\ liabilities} . \tag{2.20}$$

The numerator is current assets minus inventory， because it can measure ability of company to meet its short-term debt with its the most liquid assets， including cash and cash equivalent， marketable securities， receivable.

If the liquid ratio is higher than 1 and even more, it shows the more assets company can be easy to convert into cash and pay off its current debt. For investors， they will receive more dividend which the assets convert into cash. For creditor， the better liquid ratio represents they will receive payment of company on time.

The cash ratio is also used to measure ability of a company to pay off the current liability. Tough its goal of calculation is same as current ratio and liquidity ratio， but it only uses cash and cash equivalent， it can help company assess immediately for emergency need or short-term debt.

$$\text{Cash ratio} = \frac{Cash + marketable\ liabilities}{Current\ liabilities} . \tag{2.21}$$

Cash is direct way guarantees creditor to receive payback， and creditors would like to see a company has enough capital to pay off its current liability， and the inventory and receivable are impossible to be collected immediately. So， it is reason why creditors prefer the cash ratio.

2.5 Pyramidal decompositions

Pyramid decomposition is also called DUPONT analysis. It uses the relationship between some main financial ratios and base on the return on equity (ROE) to comprehensive analyze the financial situation of a company and good for analysis deeply.

The DUPONT analysis shows that the return on equity（ROE）is influenced by three factors: operating efficiency, assets use efficiency, financial leverage. So, according to

computation, the (ROE) can be divided into profit margin, total assets turnover, financial leverage.

The profitability ratios are the key factor to analyze the financial situation of a company and influenced by the leverage and liquidity of company. Through the analysis of the pyramidal decompositions, manager of company is possible to make a significant decision for improvement of financial situation.

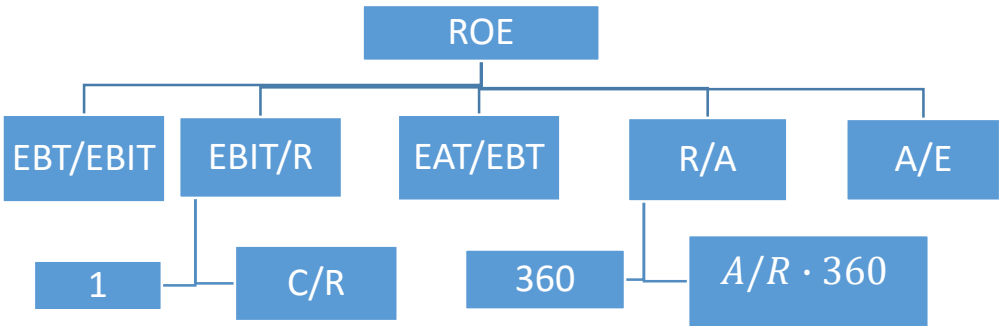
$$\text{ROE} = \frac{Net\ income}{Revenue} \cdot \frac{Revenue}{Total\ assets} \cdot \frac{Total\ assets}{equity} \quad . \tag{2.22}$$

If company wants to separate the effects of tax and interest, the ROE can be decomposed as follow:

$$\text{ROE} = \frac{EAT}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{Revenue} \cdot \frac{Revenue}{Total\ assets} \cdot \frac{Total\ assets}{Equity} \quad . \tag{2.23}$$

Where EAT/EBT is the interest burden, EBT/EBIT is the tax burden, EBIT/Revenue is the operating profit margin, Revenue/Assets are the assets turnover, Assets/Equity is the financial leverage.

Figure 2.1 the branch graph of Pyramidal decompositions



From the formula，it can be decomposed into two detail parts，the operating profit margin （EBIT / REVENUE）separates 1 and total cost divided by revenue（cost / revenue），and the total assets turnover（revenue / assets）decomposes into 360 and A/R.

Then the two ratios continue to be decomposed，the C/R separates some components that influenced the total cost，including cost of sales，raw material，salaries and wage，etc. After that，It can be obvious to see which component has big or small influence in return

on equity and help companies to adjust the amount of component in order to the better ROE. The A/R is consist of fixed assets and current assets， next current as well divided into some components, including the inventory, receivable, cash and cash equipment, and so on.

2.5.1 Influence quantification

The influence quantification can be used to indicator which ratio have changed and caused other ratio change in basic ratio. It is also enable to quantify which component ratios contributed the most to change in basic ratio. There are 4 methods of quantification of influence, including the methods of gradual changes and decomposition with the surplus, logarithmic decomposition method， and function decomposition method.

2.5.1.1. Method of gradual changes

Through the method, the change in the base ratio is separated into specific impacts of change in component ratios. It enables to quantify the change in basic ratio caused by the change in the component ratio. In the case of decomposition have three component ratios.

$$\begin{aligned} \Delta X_{a1} &= \Delta a_1 \cdot a_{2.0} \cdot a_{3.0} \cdot \frac{\Delta y_x}{\Delta x} \ . \\ \Delta X_{a2} &= a_{1.1} \cdot \Delta a_2 \cdot a_{3.0} \cdot \frac{\Delta y_x}{\Delta x} \ . \\ \Delta X_{a3} &= a_{1.1} \cdot a_{2.2} \cdot \Delta a_3 \cdot \frac{\Delta y_x}{\Delta x} \ . \end{aligned} \tag{2.24}$$

The X means basic indicator， the ΔX represents absolute change in X. The component indicator is replaced by a， Δa is absolute change in a. ΔX_a means absolute change in ΔX caused by the change in Δa. ΔY is the change in the base indicator x， which means the sum of ΔX.

2.5.1.2 The decomposition method with surplus.

According to the formula, the method is similar with the gradual change， but it is calculated as the effect of isolated changes in particular component ratios plus the proportion of the surplus R， which is formed at the result of a joint change in all the component ratios.

In the case of decomposition with three component ratios is：

$$\begin{aligned} \Delta X_{a1} &= \Delta a_1 \cdot a_{2.0} \cdot a_{3.0} \cdot \frac{\Delta y_x}{\Delta x} + \frac{R}{3} \ . \\ \Delta X_{a2} &= a_{1.1} \cdot \Delta a_2 \cdot a_{3.0} \cdot \frac{\Delta y_x}{\Delta x} + \frac{R}{3} \ . \\ \Delta X_{a3} &= a_{1.1} \cdot a_{2.2} \cdot \Delta a_3 \cdot \frac{\Delta y_x}{\Delta x} + \frac{R}{3} \ . \end{aligned} \tag{2.25}$$

The X means basic indicator，the ΔX represents absolute change in X. The component indicator is replaced by a，Δa is absolute change in a. ΔX_a means absolute change in ΔX caused by the change in Δa. ΔY is the change in the base indicator x，which means the sum of ΔX.

2.5.1.3 The logarithmic method.

The logarithmic method is based on the continue return as and are continues returns of ratios and x, respectively. The advantage of logarithmic method is that just one formula for the impact quantification regardless of the number of component ratios we have.

The impact of the change in a particular component ratio can be calculated as follows:

$$\Delta X_{a_i} = \frac{\ln I_{a_i}}{\ln I_x} \cdot \Delta y_x \quad . \tag{2.26}$$

The X means basic indicator，the ΔX represents absolute change in X. I_x means the index of change in basic indicator x. I_{a_i} represents the index of change in component indicator a.

2.5.1.4 Functional decomposition method

It is based on the discrete return of component ratio and base ratio x, and also works with the relative changes in basic and component ratios.

Functional decomposition method works with relative changes in basic and component ratios. The formula is written as：

$$\begin{aligned}
\Delta X_{a_1} &= \frac{1}{R_x} \cdot R_{a1} \cdot \left(1 + \frac{1}{2} \cdot R_{a2} \cdot \frac{1}{2} \cdot R_{a3} \cdot \frac{1}{3} \cdot R_{a2} \cdot R_{a3}\right) \Delta y_x \quad . \\
\Delta X_{a_2} &= \frac{1}{R_x} \cdot R_{a2} \cdot \left(1 + \frac{1}{2} \cdot R_{a1} \cdot \frac{1}{2} \cdot R_{a3} \cdot \frac{1}{3} \cdot R_{a1} \cdot R_{a3}\right) \Delta y_x \quad . \\
\Delta X_{a_3} &= \frac{1}{R_x} \cdot R_{a3} \cdot \left(1 + \frac{1}{2} \cdot R_{a1} \cdot \frac{1}{2} \cdot R_{a2} \cdot \frac{1}{3} \cdot R_{a1} \cdot R_{a2}\right) \Delta y_x \quad .
\end{aligned} \tag{2.27}$$

3. Assessment of financial position

ALIBABA was found in 1999，it is the biggest online trading market and as well is the first e-commerce website which has more than 21 million business over the world. ALIBABA has twice to be elected in MBA course of Harvard University，and had 4 times be selected by Forbes as one of the most popular B2B websites.

3.1 The profile of ALIBABA

ALIBABA is a global internet- business (B2B), e-commerce known brands, is currently the world's largest online trading market. Mainly business including online retail, shopping search engines, third-party payment and cloud computing service. The ALIBABA group have some subsidiaries and affiliated companies，TMALL, TAOBAO, Cloud computing, ALI pay and so on.

In these companies, TIANMAO and TAOBAO are the largest resources of income of ALIBABA group. For the year ended march 31 2013，the combined gross merchandise volume (GMV) of TAOBAO Marketplace and Tmall.com exceeded 1 trillion CNY，about 147billion dollar and exceeded the sum of AMAZON and E-Bay. After market financing，ALIBABA has become one of the most valuable technology companies in the world，just behind APPLE，GOOGLE, Soft micro.

ALIBABA was found in HANZHOU，ZHEJIANG province in 1999.Untill 18 September 2014，ALIBABA went to the market and listed in New York stock exchange（NYSC）. The IPO price of ALIBABA was priced at 68 US dollar，raising 21.8 billion US dollar for companies and investors. ALIBABA was the biggest IPO in America history，even exceed the combined between AMAZON and EBAY. At the same meantime，the CEO of ALIBABA MA YUN became the richest man in Asia and China.

With Chinese Internet industry developed rapidly today，more and more people began to use the internet to do many things in their daily life. For example, shopping online, buying and selling stock and others financial product, opening the store online. People just clicks the mouse choose or operate you want. It has brought convenience to human life. ALIBABA

have got the opportunity and development. Now ALIBABA is one of the biggest e-commerce companies on global.

The ALIBABA success cannot without Chinese market，China has the most population of customer，new generation is main force. In the beginning，ALIBABA used low cost way to attract seller open store online，and pay allowance to them. Still now，ALIBABA is the most popular B2B website all over the world.

Only 18 person from 1999 until 2016 is about 40000 employee during 17years，as well expanded overseas business，in England，Russia，India，America，and some countries in the southeast Asia. With the companies development，ALIBABA continue to expand overseas business.

ALIBABA is an open platform. In its subsidiaries TAOBAO，sellers have the possibility to open shops and sell they want. Customers are able to buy everything they prefer. On the other hand，ALIBABA provide job opportunities to society，and also provide lots of selection to customers.

In TAO BAO，there are more than 70 million business and 500 million registered users. Everyday more than 60 million regular visitors，while the daily number of products exceeded 800 million，sold average of 4800 products per minute. Specially，on 11 November each year，each store has half discount like Christmas discount. In 11 November 2015，the transaction volume was 91.2 billion within 24 hours.

These values inspire ALIBABA to explore and develop in the Internet industry. The economic situation has progressed every year. In recent 4 year，the revenue by 20 billion in 2012 to 76 billion in 2105.

3.2 Common size analysis

The common size analysis can be divided two parts. The first is vertical common size analysis. The second is horizontal common size analysis. It showed the changing proportion

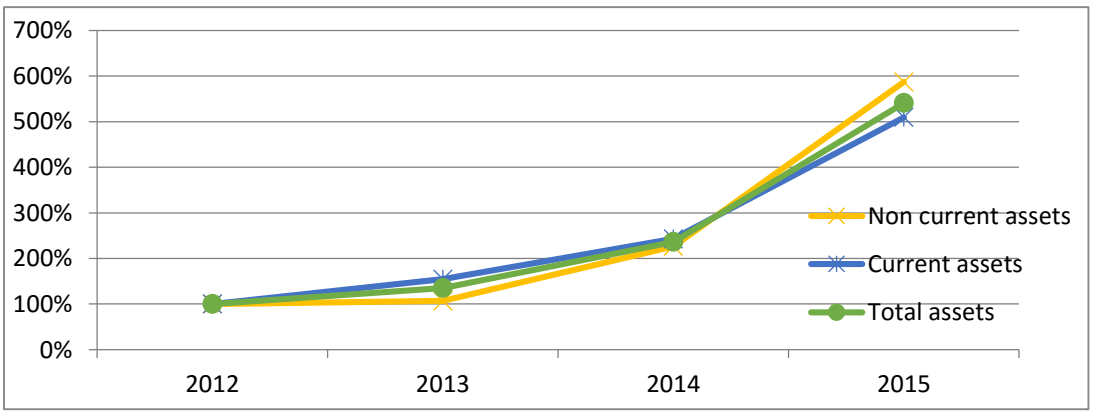
of each item，and showed the proportion of each item in the financial statement from 2012 to 2015. We selected the method of horizontal and vertical common size to analysis the financial position.

3.2.1 Horizontal common size analysis of balance sheet

Table 3.1 horizontal common size analysis of asset 1（In millions of CNY）

	2012	2013	2014	2015	2012	2013	2014	2015
Non-current assets	19311	20624	43716	113325	100%	107%	226%	587%
Current assets	27899	43162	67833	142109	100%	155%	243%	509%
Other current assets	4108	4709	6316	4132	100%	115%	154%	101%
prepaid	60	158	183	935	100%	263%	305%	1558%
Cash	22337	33315	45285	125999	100%	149	203%	564%
Receivable	1394	4980	16049	11043	100%	357%	1151%	792%
Total assets	47210	63786	111549	255434	100%	135%	236%	541%

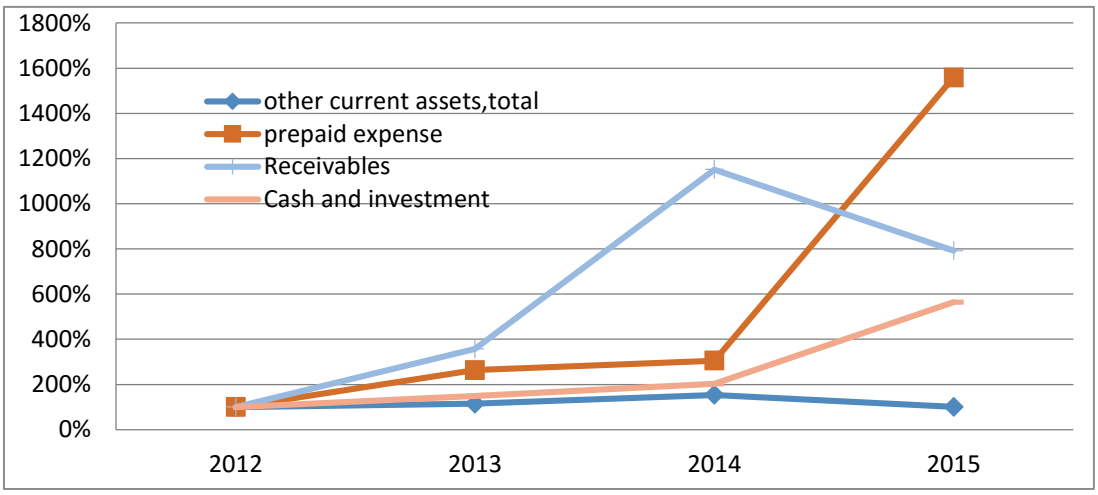
Figure 3.1 horizontal common size analysis of asset 1.



As the figure3.1， we used three big parts of asset， fix asset， current asset and the total asset to show the trend of these items. We can see ， the overall trend of three components are rising， which means ALIBABA had more assets to generate. But the slope of each year is different. From 2012 to 2013， the slope of current asset had obvious change， but non-current asset was not. In the year between 2013 and 2014， the trend of three components increased gradually， their proportion was substantially close to 240% in 2014.

As can be seen obviously from 2014 to 2015， fix asset, current asset, and total asset increased steeply and sharply. The proportion in 2015 was double of proportion in 2014. From the table 3.1, we can see the cash and investment and receivable had significant change， the volume in 2015 is three time than the volume in 2014， it caused the trend of current assets increase a lot. The most important reason caused the situation was ALIBABA went to market in September 2014， and financed more capital through issued shares to develop production and expand the scale of company， and invested in the potential market.

Figure 3.2 horizontal common size analysis of asset 2.



According to the figure3.2 and table 3.1， we can see four components of current asset， they are other current asset， prepaid expense， receivable， cash and investment.

Firstly, by observing from the figure 3.2, the number of cash and short-term investment raised gradually from2012 to 2014， which the upward trend was not obvious. However, the trend of prepaid expense increased steeply from 305% in 2014 to 1558% in 2015， the cash

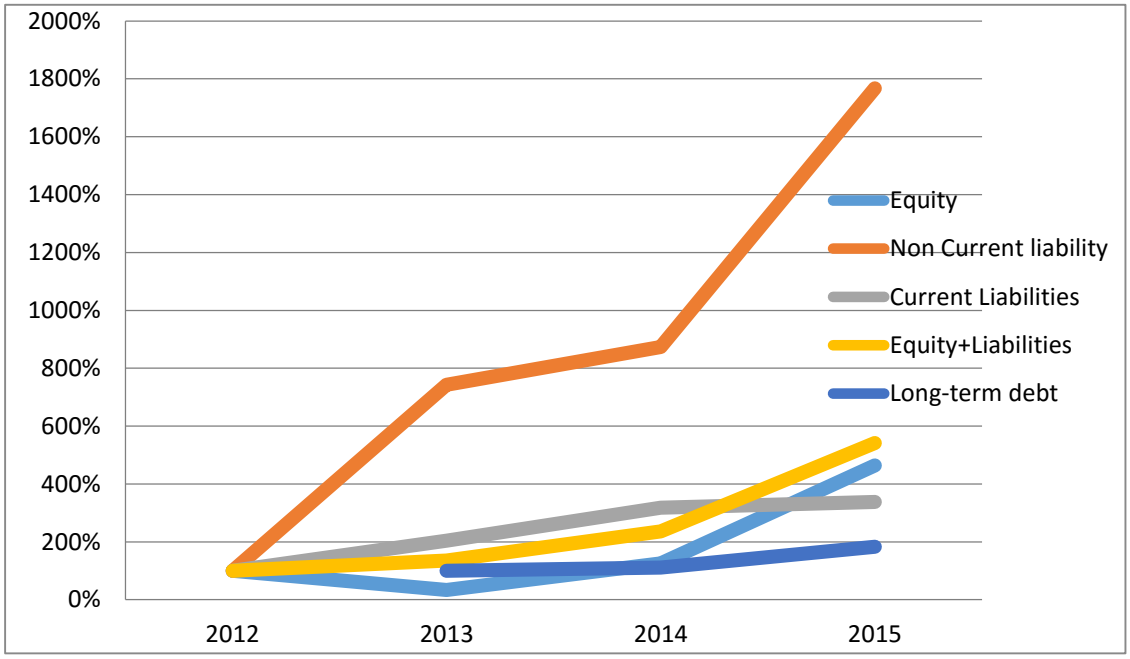
and short-term investment grew from 203% to 564%. So, the reason caused prepaid expense and short-term investment rise up sharply was the decrease of receivable，which mean company receive cash in time，and used in prepaid expense and short-term investment.

Secondly，it was clear to see from the figure that receivable raised sharply over period from 2012 to 2013，but other current asset was not. Though other current assets had raised trend，but not noticeable. In contrast，since 2014 the receivable dropped from 1151% to 792%. It can illustrate that company increased management of receivable and has ability to convert receivable into cash quickly, and accelerated the liquidity of product.

Table 3.2 horizontal common size analyses of liability and equity (In millions of CNY)

	2012	2013	2014	2015	2012	2013	2014	2015
Equity	31518	10509	39739	146097	100%	33%	126%	464%
Long-term debt		27653	30711	50603		100%	111%	183%
Non-current liability	3941	29282	34426	69665	100%	743%	874%	1768 %
Current liability	11751	23995	37384	39672	100%	204%	318%	338%
Equity and liability	47210	63786	111549	255434	100%	135%	236%	541%

Figure 3.3 horizontal common size analyses of liability and equity.



As shown from the figure 3.3, we can see liability and equity had the overall trend of upward. We can see the overall trend of non-current liability sharply went up by 100% in 2012 to 1768% in 2015，it reflects ALIBABA need more and more cash to convert into assets for production. Because follow the table 3.2, we can see in 2012, there were few number of long term debt, but the other years were not. Current liability increased gradually，it can be seen that the increasing of liability is mainly relay on the increasing of Non-current liability.

According to equity, it was the fluctuating trend from 100% in 2012 drop down to 33% in 2013， then it returns to increase. Because the retained earnings were negative and influence equity to be the lowest in 4 years.

However, from 2013, the trend of equity raised again. Especially 2014 to 2015， the trend was steep and sharp, the main reason is going to market in NYSC and began to issue a lot of shares on September 18,2014. After NYSC，the total equity from 39.7 billion increase to 146.1 billion.

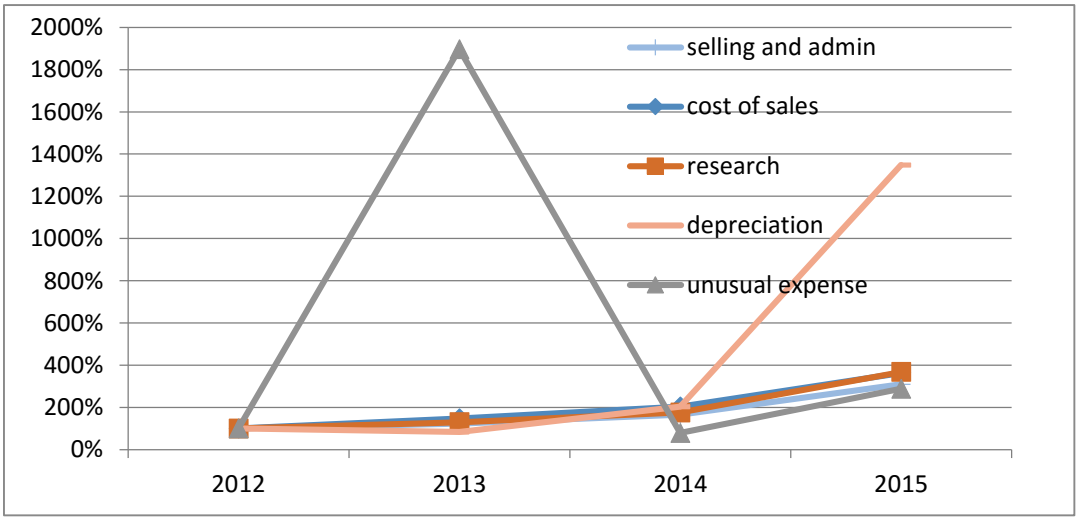
3.2.2 Horizontal common size analysis of income statement

In this part，we used the method of Horizontal common size analysis to describe income statement.

Table 3.3 horizontal common size analysis of income statement 1(in millions of CNY)

	2012	2013	2014	2015	2012	2013	2014	2015
Selling and administrate	5269	6502	8763	16313	100%	148%	204%	364%
Cost of sales	6554	9719	13369	23834	100%	123%	166%	310%
Research	2897	3753	5093	10658	100%	148%	204%	364%
Depreciation	155	130	315	2089	100%	84%	203%	1348%
Unusual expense	206	3907	163	594	100%	1897%	79%	288%
Total cost	15081	24011	27703	53488	100%	159%	184%	355%

Figure 3.4 horizontal common size analysis of the component in cost



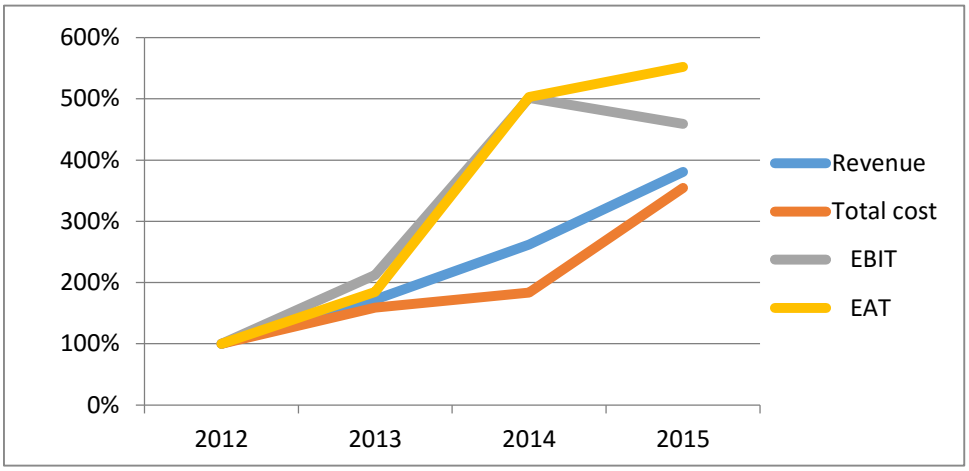
It is clear from the figure，there is a great deal of change between the unusual expense over the period from 2012 to 2015. The trend of unusual expense had fluctuate change，from 100% in 2012 raised steeply to 1897% in 2013，then decreased and lower than 100% in 2014. It can be supposed during this period，ALIBABA lost more cost in external and un-normal factor which cannot be forecasted. In the term of depreciation，it has grown substantially stable in the first three years. However，it went up steeply in 2015. It can illustrate ALIBABA spend more energy to improve operation and production, which caused equipment performance reduce and depreciate.

The others items cost of sales，research，selling and administrate，the overall trend of them went up，but the slope of change had little change. The increase of these items reflects ALIBABA continue to improve quality of product as well as the management of company.

Table 3.4 horizontal common size analysis of income statement 2 （In millions of CNY）

	2012	2013	2014	2015	2012	2013	2014	2015
Revenue	20025	34517	52504	76204	100%	172%	262%	381%
Total cost	15081	24011	27703	53488	100%	159%	184%	355%
EBIT	4944	10506	24801	22716	100%	213%	502%	459%
EBT	5532	10112	26802	32326	100%	183%	484%	584%
EAT	4690	8655	23606	25910	100%	185%	503%	552%

Figure 3.5 horizontal common size analysis of income



With the development of ALIBABA，revenue increased while cost also increased from 2012 to 2013. It is clear to see that the increasing proportion of EBIT (operating profit) and EAT（net profit）went up quickly and steeply in 2014，because the increasing proportion of revenue was higher than cost. However，the EBIT(operating profit) in 2015 was lower than that in 2014，the main reason is the cost raised up quickly，it caused the ratio gap between revenue and cost in 2014 is higher than that in 2015. Therefore，ALIBABA should increase the revenue and use cost efficiently in order to maintain the total cost minimum for the increase of EBIT (operating profit).

From the figure 3.5，we can know during 4 years，the increasing number of seller and customer made the revenue increased，and spend more cost to expand new market and service and as well proved production and created new product. With ALIBABA be more and more mature，they fill fall potential in B2B market in future.

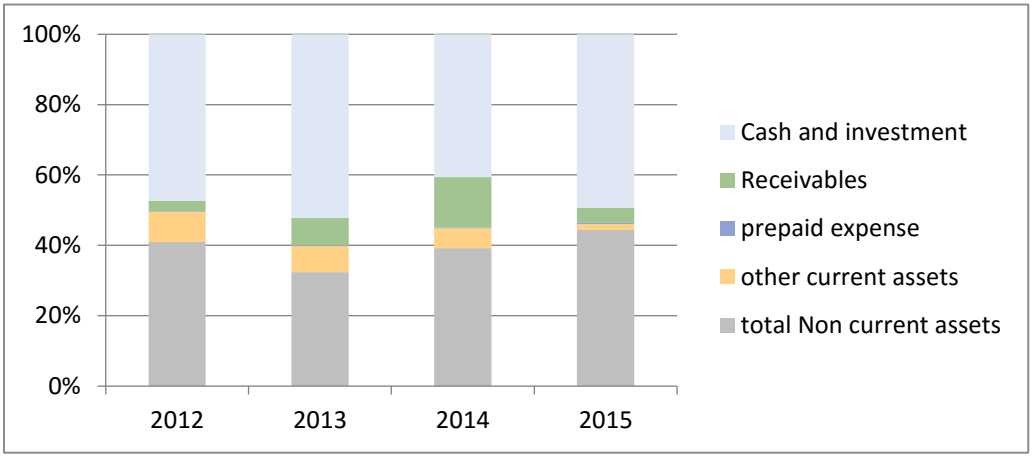
3.3.1 vertical common size analysis of balance sheet

Table 3.5 the vertical common size analysis of balance sheet 1

	2012	2013	2014	2015
Cash and short-term investment	47.3%	52.2%	40.6%	49.3%

Receivable	3%	7.8%	14.4%	4.3%
Prepaid expense	0.1%	0.2%	0.2%	0.4%
Other current assets	8.7%	7.4%	5.7%	1.6%
Non-current assets	40.9%	32.3%	39.2%	44.4%
Total assets	100%	100%	100%	100%

Figure 3.6 vertical common size analysis of balance sheet 1



As is shown in the figure 3.6，it is obvious to see the proportion of total non-current assets were lower than total current assets，and cash and short-term investment had large proportion in total current assets over the period from 2012 to 2015，it reflects they are very important ratios in total assets. According to the table 3.5，we can find the cash and short-term investment had proportion in current, which illustrates the cash and short-term investment influences the most in current liability.

In receivable，from the table 3.5 and figure 3.6，it is obvious that the proportion receivable in 2014 was the largest during 4 years，it reflects the ability of company which manage receivable was relatively week，and the creditability of clients were not higher.

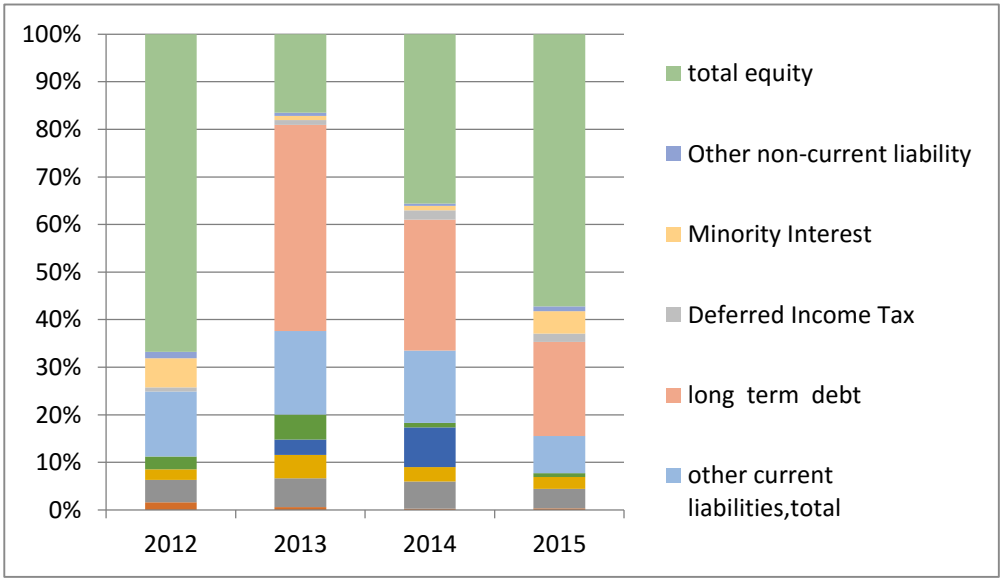
By the comparison between 4 years，the proportion of non-current in 2013was the lowest during 4 years，in contrast the current was highest，especial in the term of the cash

and short-term investment was， which mean the proportion of current assets increased and the liquidity of assets became better， the assets risk was relatively low.

Table 3.6 the vertical common size analysis of equity and liability

	2012	2013	2014	2015
Total equity	66.8%	16.5%	35.6%	57.2%
Total current liability	24.9%	37.6%	33.5%	15.5%
Long-term debt	0%	43.4%	27.5%	19.8%
Total non-current liability	8.3%	45.5%	30.9%	27.3%
Equity and liability	100%	100%	100%	100%

Figure 3.7 vertical common size analysis of equity and liability



In the table 3.6，during 4 years，the proportion of total liability was the lowest in 2012， which mean ALIBABA used more liability to raise money than total equity. But the liability raised up sharply in 2013，and then decreased gradually.

As can be seen in figure 3.7，there are two main ratios covered big proportion in equity and liability. Firstly， we can see the equity covered exceed 50% in 2012 and 2015， which mean the debt to assets was low and the financial risk of ALIBABA was also relatively low. But in 2013，due to the increase of long term debt，the proportion of equity reached low point，caused risky went up.

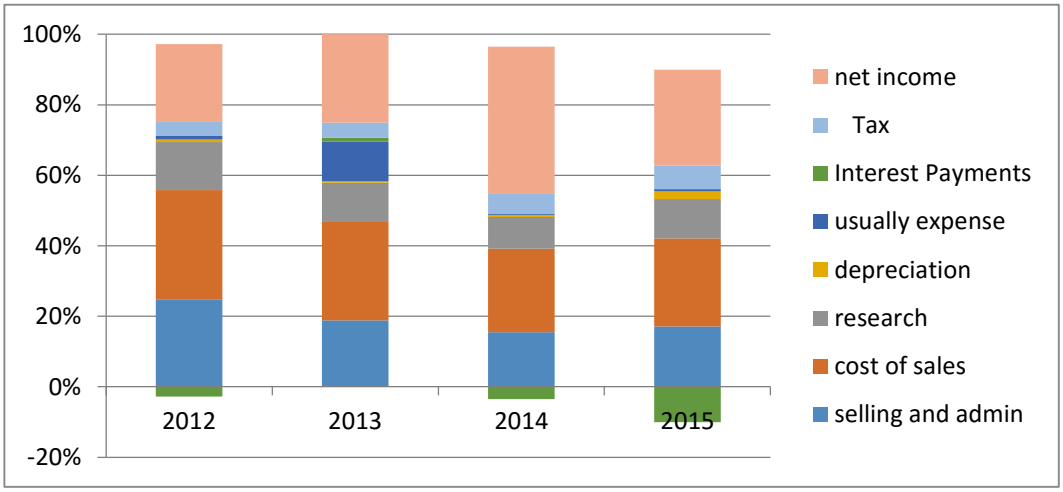
Secondly，there is downward trend in number of the proportion of long term liability from 2013 to 2015，it reflected ALIBABA acquired more immediate capital to operate gradually after 2013. As shown in table 3.6，the long-term debt is belong to the non-current liability and covered large proportion in non-current liability，which means the long-term debt is the most important component in non-current liability of ALIBABA.

3.3.2 Vertical common size analysis of income statement

Table 3.7 the vertical common size analysis of income statement

	2012	2013	2014	2015
Research	14.5%	10.9%	9.7%	14%
Cost of sales	32.7%	28.2%	25.5%	31.3%
Total cost	75.3%	69.6%	52.8%	70.2%
Interest	-2.9%	1.1%	-3.8%	-12.6%
Tax	4.2%	4.2%	6.1%	8.4%
Net income	23.4%	25.1%	45%	34%
Revenue	100%	100%	100%	100%

Figure 3.8 vertical common size analysis of income statement



According to table 3.7 and figure 3.8，it is obvious that the cost of sales and research have large proportion in the total cost，which had an important impact within total cost., the trend of cost had not significant change.

In the figure，we can see the net income had the largest proportion and good

performance in 2014. The reason caused result was the proportion of total operating cost decreased，which mean ALIBABA had a perfect performance in the management of cost，using relatively less cost to earn more profit. Secondly，there are 3 years of interest payment negatively，because the company receive more interest through lending was higher than their payment of interest, especially in 2015.

4. Profitability assessment of ALIBABA

In this part, we accorded to the balance sheet and income statement and used profitability ratios, liquidity ratios, solvency ratios， asset management ratios to describe and analysis ALIBABA and its competition AMAZON.

4.1 Financial ratio

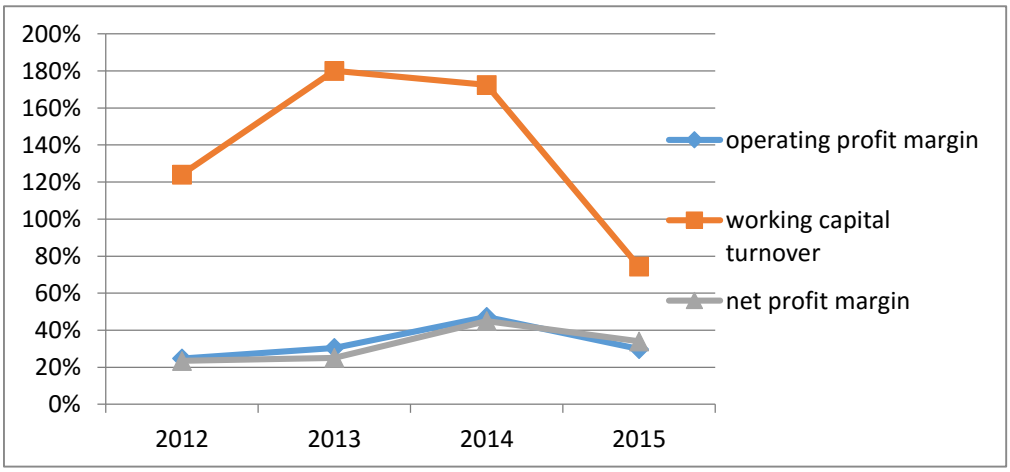
In the part, we used 4 main financial ratios to calculate each ratio for 4 years and used the figure to show the change of each ratio.

4.1.1 Profitability ratios analysis

Table 4.1the profitability ratio

	2012	2013	2014	2015
Operating profit margin	25%	30%	47%	30%
Working turnover	124%	180%	172%	74%
Net profit margin	23%	25%	45%	34%
ROA	10%	16%	22%	9%
ROE	15%	82%	59%	18%

Figure 4.1 the profitability ratio1



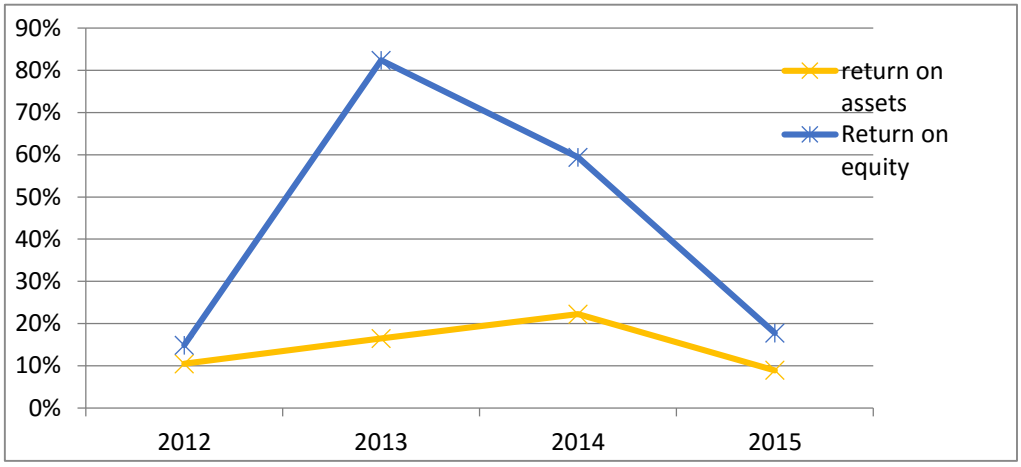
Firstly，from the table 4.1，we can see the operating profit margin and net profit margin fluctuated similarly from 2012 to 2015. It increased to 47% and 45% in 2013， but decreased

to 30% and 34%in 2015. So，it reflects the profitability of ALIBABA had been improved and had efficient production from 2012 to 2014.

The reduction of net profit margin and operating profit margin in 2015，the main reason was tax rate is relatively higher which about 19.8%，and the increasing proportion of total cost was higher than revenue. So, the two factors caused growth rate of net profit lower than revenue. According to the reasons，ALIBABA should has a progress in cost management and increase the use efficiency of cost.

The figure indicates that the working capital turnover in 2012 and 2013 revealed a general trend of fast increase while current asset and current liability fluctuated greatly. During 4 years, it was the highest in 2013. It can reflect the ALIBABA used working capital effectively to generate sales. However，it decreased sharply in 2015. According to the income statement, though, the revenue, current asset, and liability all had grown, but the increasing proportion of revenue lower than current assets and liability, it illustrated the reduction of using working capital efficiency.

Figure 4.2 the profitability ratio2



The trend of return on assets went up to 22% in 2014, according to the income statement and balance sheet. We can see the operating profit and total assets have grown, and the increasing proportion of EBIT was higher than assets by 2012 to 2014. It illustrated ALIBABA improved ability which using asset efficiency to receive more profit. But，in

2015，it fell down steeply，because the total assets raised up but operating profit was not. So，it reflects the ability of ALIBABA which using assets to obtain profit was relatively lower in 2015.

According to return on equity in 4 years，the overall trend has fluctuated. The ratio in 2013 was the largest, and behind was in 2014. Generally，return on equity represents how much return receives through equity. It as well reflected ALIBABA obtain more profit through equity and had good performance in equity management in 2013. However，with the ROE decreased sharply from 82% in 2013 to 18% in 2015. It illustrates that ALIBABA increased the using of total liability to transfer into assets for production more than the using of total equity.

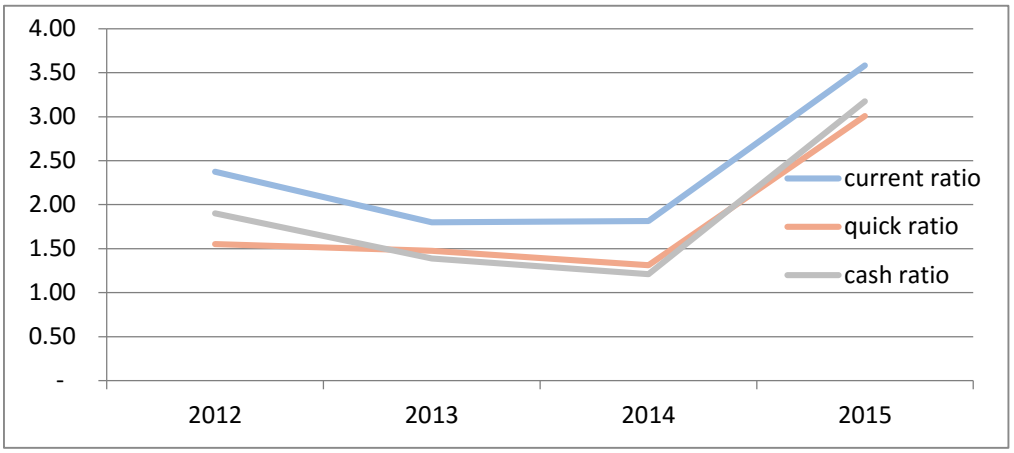
Finally，we can see clearly from figure 4.1 and table 4.1. Tough revenue and net income increased during the period，but the profitability dropped in 2015. ALIBABA should enhance production efficiency and reduce production cost, and improve the efficiency of assets and equity.

4.1.2 Liquidity ratios analysis

Table 4.2 the liquidity ratio

	2012	2013	2014	2015
Current ratio	2.37	1.80	1.81	3.58
Quick ratio	1.55	1.47	1.31	3.01
Cash ratio	1.90	1.39	1.21	3.18

Figure 4.3 the liquidity ratio



From the figure 4.3， the overall trend of three ratios raised， the date for each year was greater than 1.00， it mean the ability of company to meet its short-term liability obligation was not bad. However， cash ratio had slight decreasing， because the short-term investment increased a lot. The current ratio was 3.58 and higher than 3 in 2015, though it illustrates ALIBABA had enough assets to pay off liability, but it also illustrates ALIBABA did not use liability efficiency because the company did not use more current assets to production， and left over some without production.

In 2015，the grown trend was raised sharply and steeply. It means ALIBABA had ability to repay short-term liability， and also reflects the company can easy to transfer marketable security into cash. Because after NYSC， ALIBABA in order to receive more capital and issued more securities and other short-term financial products. So，there were overall growth from 2012 to 2015， it reflects that more and more investor will be glad to short-term investment, not only that creditor will be gladder to lend to ALIBABA.

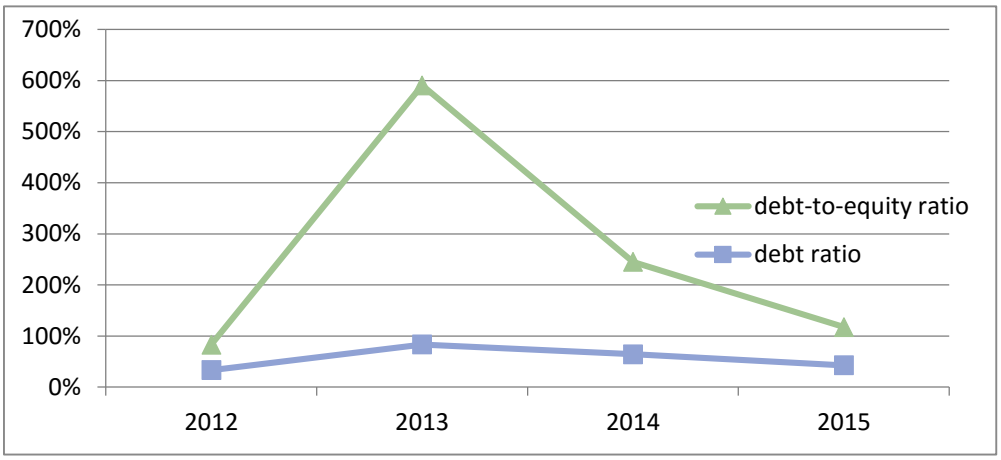
4.1.3 Solvency ratios analysis

Table 4.3 solvency ratio

	2012	2013	2014	2015
Debt ratio	33%	84%	64%	43%

Debt to equity ratio	50%	507%	181%	75%
Financial leverage	1.5	6.07	2.81	1.75

Figure 4.4 solvency ratios



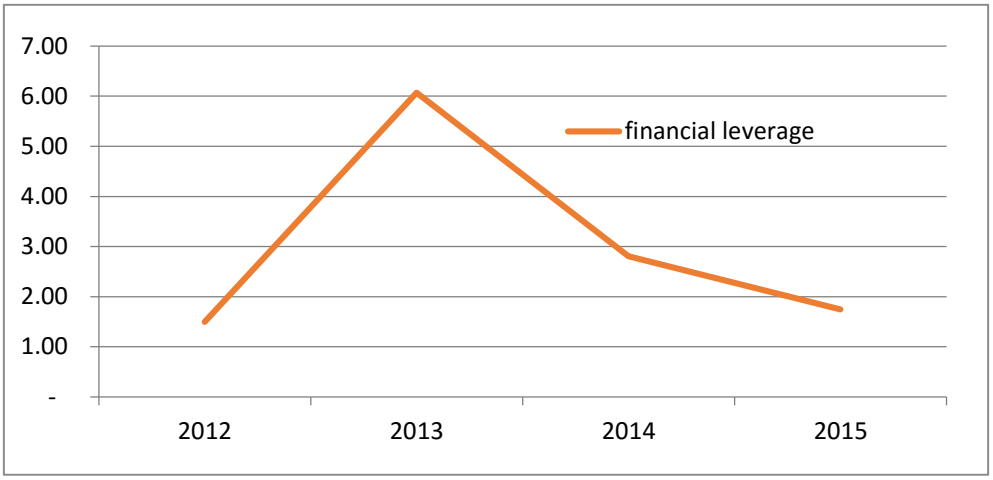
According to figure 4.4 and table 4.3，we can see the change trend of two ratios were similar，but the different was the change width of debt to equity ratio was more large than debt ratio. In 2013，the debt to equity ratio had the highest spot is 507% in 2013，it can be considered more risky to investor，because the debt was used to convert into assets more than the use of equity. So，it might cause the return which creditor got more than the dividend investors receive. But after 2013，the trend dropped down，the amount of debt was lower than equity，the reason is ALIBABA issued more shares after NYSC in 2014.

From figure 4.4，the overall trend of debt ratio was stable，but decreased from 84% in 2013 to 43% in 2015, which mean ALIBABA decrease dependence about using debt to finance assets，which means the ability of ALIBABA uses the total assets pay off liability was stronger. However，in 2013，the debt rate was the highest，the main reason was ALIBABA financed a large number of capital used to expand scales，overseas market and recruit talents. It also reflects the ability ALIBABA uses total assets to convert into total liability was relatively weaker during 4 years.

Generally，if the debt ratio and debt-equity ratio higher，the solvency is weaker. Therefore，due to two ratios dropped by 2013 to 1015，the solvency ability improved as

well，if ALIBABA could maintain the trend stable or better，it will attract more and more investors invest long-term bond in future.

Figure 4.5 the solvency ratio 2



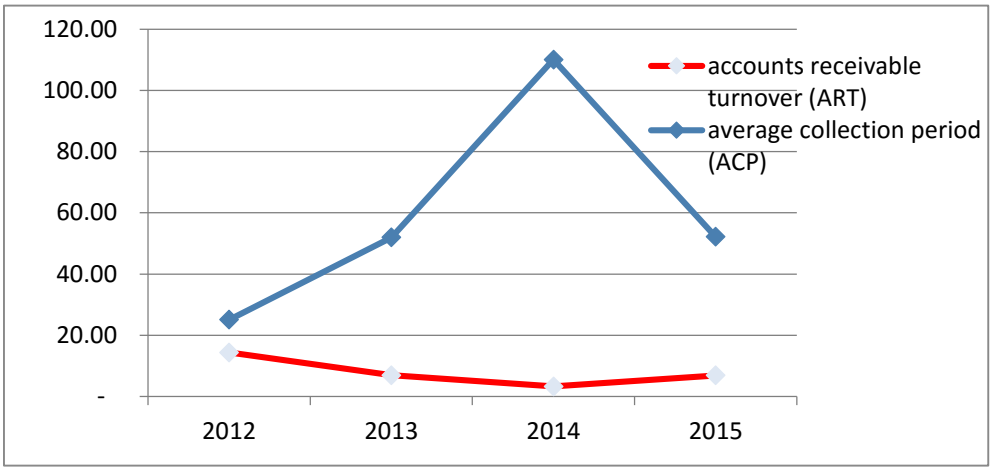
According to the figure 4.5，it is obvious that the financial leverage had the highest spot 6.07 in 2013, it reflects the company used the liability more than equity，and supported more the number of assets for each one money unit of equity. After 2013，the ratio decreased，it illustrates ALIBABA increased the use of equity to finance more capital for production.

4.1.4 Assets management (activity) ratios of ALIBABA

Table 4.4 assets management （activity）ratio

	2012	2013	2014	2015
Receivable days	25.06	51.94	110．04	52.17
Receivable turnover	14.37	6.93	3.27	6.09
Total assets turnover	42%	54%	47%	30%

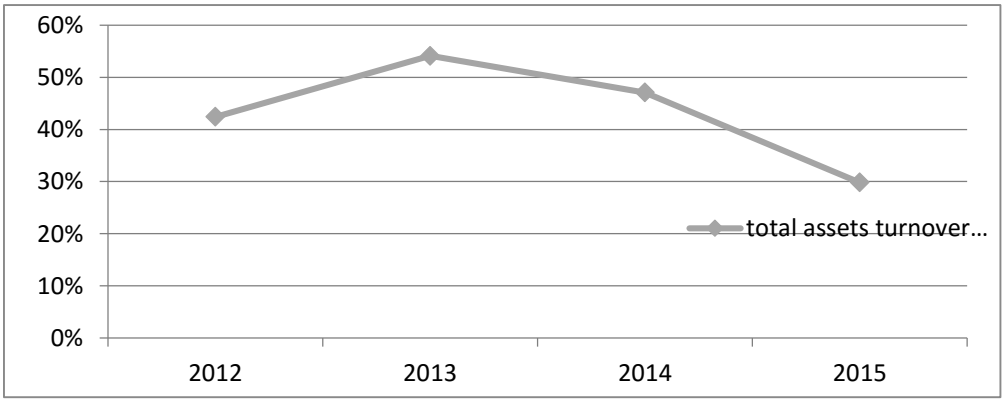
Figure 4.6 Assets management (activity) ratio



According to figure 4.6, firstly， we can see the average collection period (receive days) by 25 days in 2012 went up to 110 days in 2014， but dropped in 2015. It can be illustrated， ALIBABA used more time to turn its receivable into cash， it was bad for ALIBABA. Fortunately， in 2015， the average collection period decreased.

Secondly， in 2012 the accounts receivable turnover was 14 times and be the highest during 4 years， which means ALIBABA had 14 times to turn receivable into cash， and reflect ALIBABA had a high proportion of high quality client paid back their debt quickly. But in 2014， the receivable turnover only had 3.27， it was so hard for ALIBABA to receive cash back.

Figure 4.7 Assets management (activity) ratio 2



As we can see from the figure 4.7, total assets turnover had grown by 42% in 2012 to the highest spot in 2013 was 54%，it can reflect ALIBABA has been more effective to use total assets to operate and production，the sales ability as well has relatively increased.

However，according to the trend of total assets turnover，it has dropped down by 2013 to 2015，it looks unstable and illustrates the ability ALIBABA makes more revenue through the use of assets dropped. The main reason was that with the revenue increasing，ALIBABA exists more unused fund without using. Finally，from the formula for total assets turnover，it can be illustrated ALIBABA should increase the efficient use total assets for increasing total assets turnover ratio.

4.2 Financial ratios assessment of selected company

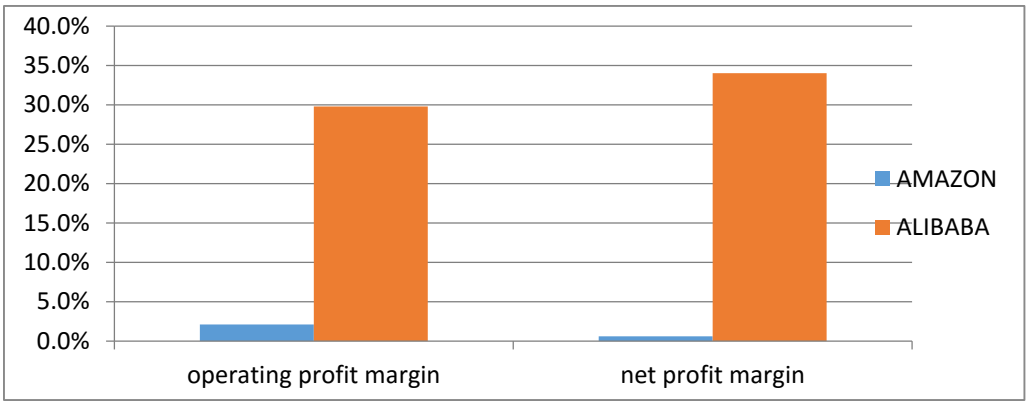
In this part, AMAZON is selected and be a competition to compare with ALIBABA in same industry，which using financial ratio to compare their profitability in 2015. We can know strengths and weaknesses through ratios.

4.2.1 Profitability ratio analysis

Table 4.5 profitability ratio

	AMAZON	ALIBABA
Operating profit margin	2.1%	30%
Net profit margin	0.6%	34%
Return on assets	3.4%	8.9%
Return on equity	4.6%	17.7%
working capital turnover	4156%	74%

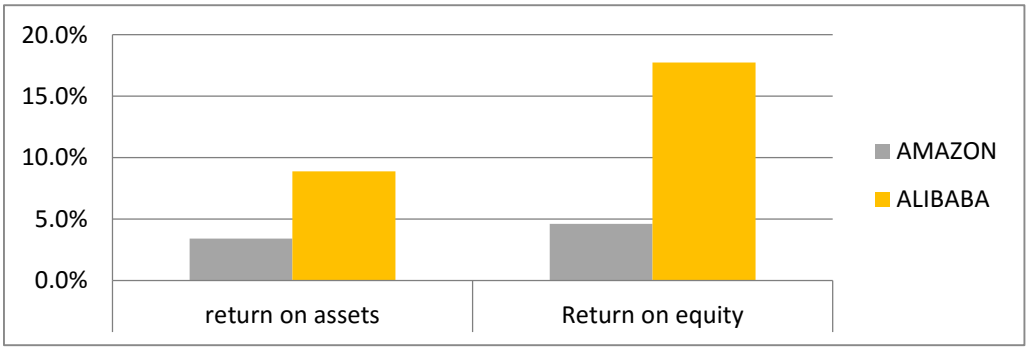
Figure 4.8 profitability ratios 1



As can be seen from the figure 4.8 and table 4.5，the net profit margin and operating profit margin, ALIBABA were higher than AMAZON. Firstly，the net profit margin is influenced by profit and tax rate. ALIBABA had larger proportion，it means ALIBABA each CNY earned to bring 0.34 CNY net profit. Though AMOZON had large numbers of revenue，but tax rate were also high about 60.6%. So，it caused the net profit margin of AMAZON was lower than ALIBABA.

Secondly，according to operating profit margin，we can see ALIBABA as well higher，it reflects ALIBABA has relatively high business efficiency，and also has stronger ability creates more profit. On the basis of formula，the result was caused by the total cost in AMAZON was higher than ALIBABA. Therefore，AMAZON should control the cost and improve the use efficiency of cost in order to maintain cost minimum and increase operating profit.

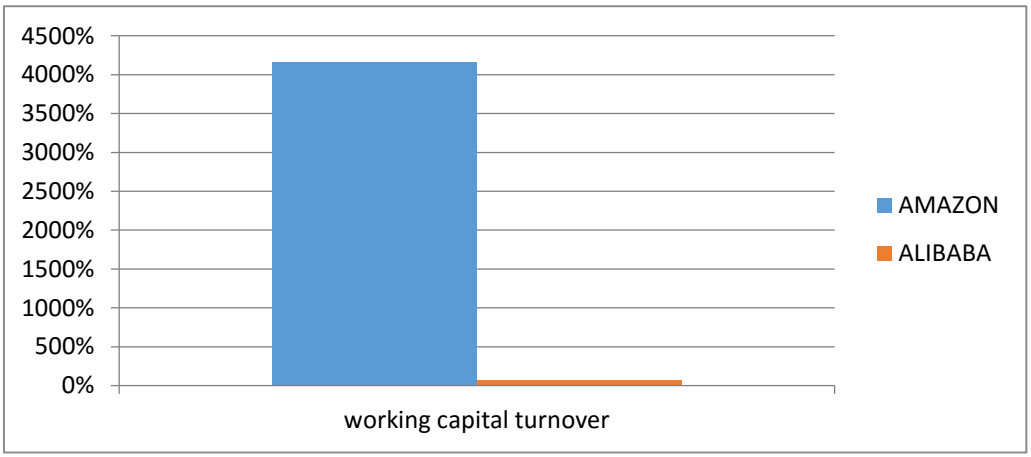
Figure 4.9 profitability ratio 2



It is clear to see from the figure 4.9， the ROA and ROE of ALIBABA were also higher than AMAZON， for return on assets， it reflects the ability of ALIBABA used total assets to earn high profit was better than that on AMAZON. For return on equity， ALIBABA was 17.7% higher than 4.6% of AMAZON， it illustrates ALIBABA used total equity to receive profit more than AMAZON.

Return on assets and return on equity are an important index to measure company profitability. So， by comparison， it can imply that the profitability of ALIBABA was relatively better in 2015， it will have the advantage to attract more and more investment in future.

Figure 4.10 profitability ratio 3



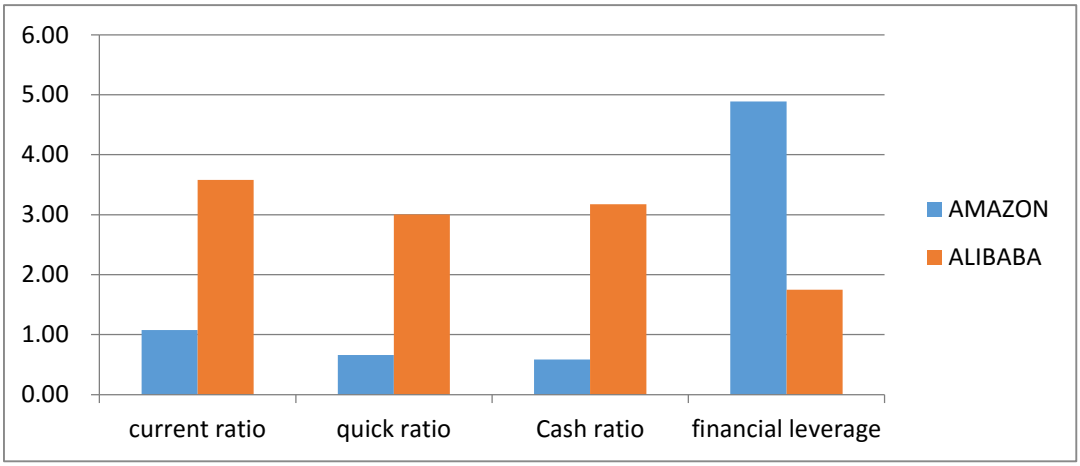
As shown in figure 4.10， the working capital turnover of AMAZON was very high. Its effect factor is current assets， liability and revenue. So, the main reason caused result is AMAZON issued the large number of shares in order to obtain capital for production after NYSC. So, the current assets was much higher than current liability， and had not much difference with current liability. In contrast， the amount of current liability was almost same with current liability, It illustrates AMAZON used current assets bring high revenue efficiency.

4.2.2 Liquidity ratios analysis

Table 4.6 liquidity ratio

	AMAZON	ALIBABA
Current ratio	1.08	3.58
Quick ratio	0.66	3.01
Cash ratio	0.58	3.18
Financial leverage	4.89	1.75

Figure 4.11 liquidity ratio 1



Current ratio，quick ratio，cash ratio are important ratios which be used to measure the company liquidity. Firstly，it is clear to see the three ratios of ALIBABA were higher. Firstly，current ratio is used to measure company's ability to pay short-term obligation. According to figure 4.11 current ratio，which reflects ALIBABA had relatively strong ability to use current assets to pay short-term liability.

Secondly，the quick ratio is mean company had ability to use current assets to turn into cash and pay current liability，but before make decision on comparison between ALIBABA and AMONZON，we must consider their receivable, if receivable is high, the ability to repay current liability is weak. From the table 4.6，the quick ratio of AMAZON was lower than

ALIBABA，it illustrated ALIBABA had relatively better ability that converts the current assets into cash and pay off current liability than AMAZON.

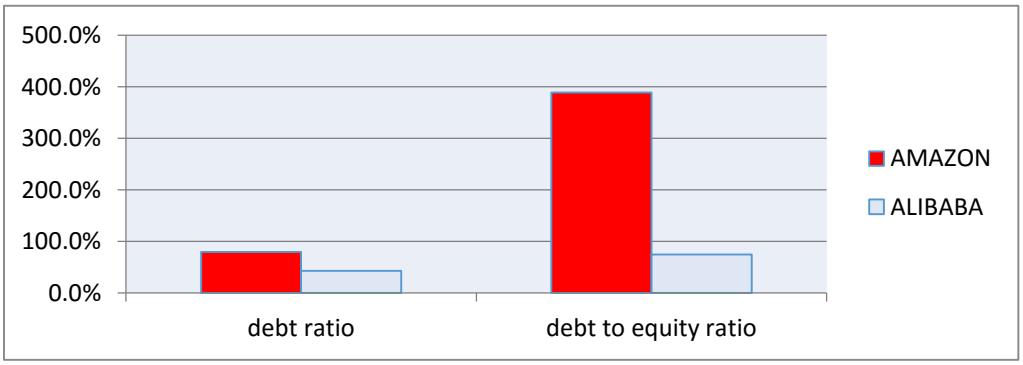
Thirdly，in the terms of cash ratio，generally，if the cash ratio is greater than 20%, it means the company will have a good cash management and use cash efficiency. Therefore, their cash ratios are not bad. But under comparison, AMAZON was lower than ALIBABA，the main reason was cash and short-term investment was not high. So，AMAZON needs more than its cash to pay off its current debt.

4.2.3 Solvency ratios analysis

Table 4.7 solvency ratio

	AMAZON	ALIBABA
Debt ratio	79.5%	42.8%
Debt to equity ratio	389%	74.8%
Long-term debt ration	12.6%	19.8%

Figure 4.12 solvency ratio

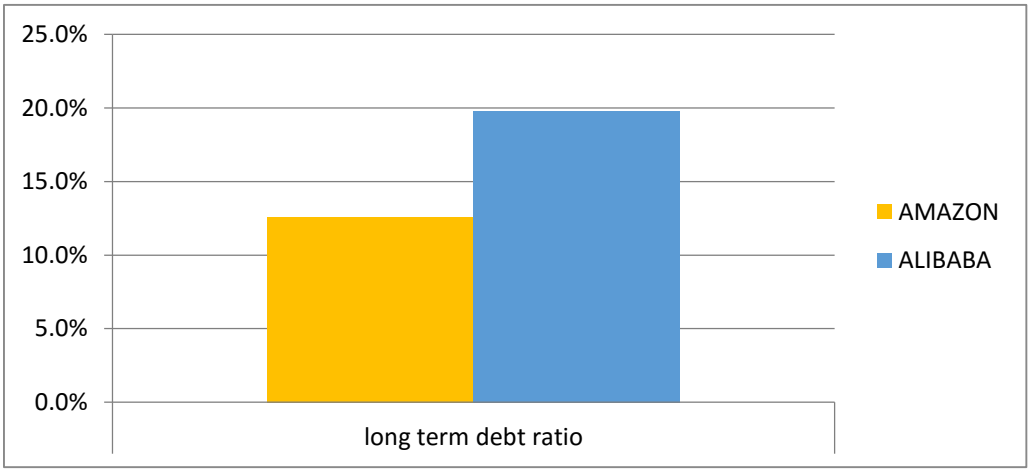


It is clear to see，two ratios of ALIBABA were lower than AMAZON. Especially in the term of debt to equity ratio in AMAZON，which had large distance with ALIBABA，the debt to equity ratio of AMAZON was 389%，it illustrates the amount of total liability was about 4 times than total equity, on the other hand, it also reflects AMAZON used more

liability transfer into assets to production than the use of total equity. Two reasons why ALIBABA was lower and had large distance，firstly，AMAZON had larger numbers of total liability in 2015，but the total equity had not，which reflect the main way AMAZON got money was through liability. Secondly, ALIBABA went to market in NYSC at end of 2014. After that, the company issued a large number of stocks for financing capital to generate and production，which caused the use of total liability decrease.

By comparison in debt ratio，we can find the ratio of ALIBABA was lower than AMAZON, it indicates ALIBABA used total assets to meet its liability efficiently. As we know，if the debt ratio and debt to equity ratio is higher，the solvency of company will be weaker. So，according to the figure，it reflects the solvency of ALIBABA was relatively better than AMAZON.

Figure 4.13 solvency ratio 2



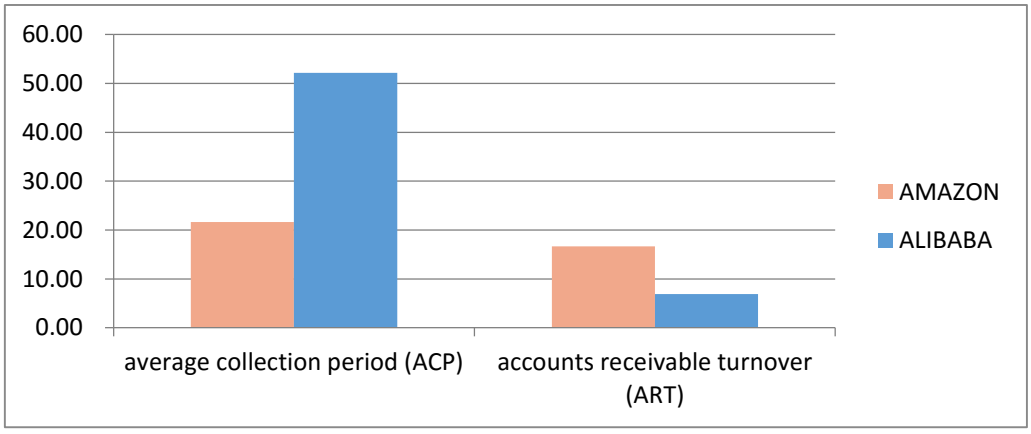
The long-term debt is impotent in solvency ratio，which means ability of company to pay off the long-term debt. According figure 4.13，ALIBABA was relatively higher and had more pressure to pay off long term debt for creditors. ALIBABA needs to improve the use efficiency of long-term debt and have a good cash flow to meet its expense.

4.2.4 Assets management (activity) ratios

Table 4.8 activity ratio

	AMAZON	ALIBABA
Receivable days	21.6	52.2
Receivable turnover	16.66	6.9
Total assets turnover	1.94	0.3

Figure 4.14 activity ratios 1



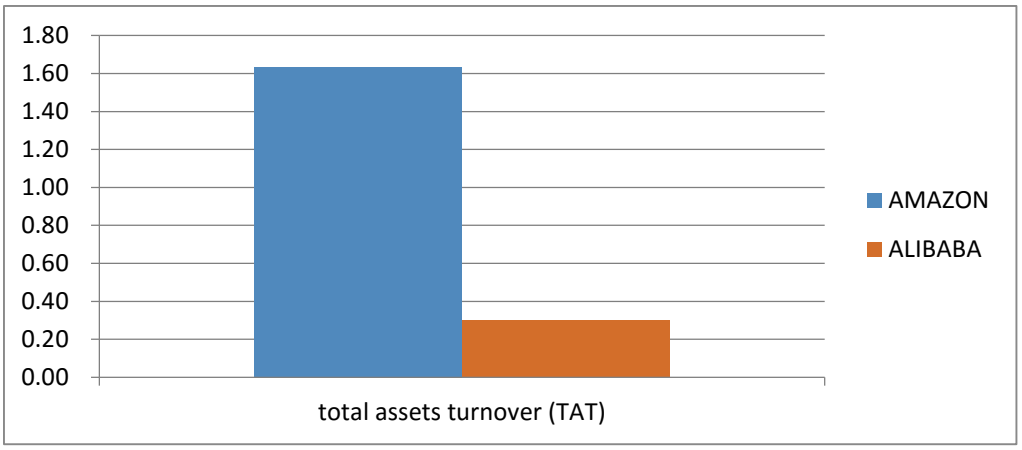
Firstly，we have known the average collection period is mean how long company can turn its receivable to cash. Ultimately，companies need cash to pay off their expense. According to the figure 4.14，the ratio of ALIBABA was around 52 days and higher than AMAZON 21 days，which means AMAZON had time benefit than ALIBABA to transfer receivable into cash.

Secondly，the account receivable turnover represent the companies have ability to receive back receivable many times in a year. From the figure，it is clear to see the receivable turnover of AMAZON had 16 times and higher than ALIBABA，which reflects AMAZON had good management in the term of receivable.

In total，in order to increase account receivable turnover and decrease the average collection period. ALIBABA not only needs to implement good credit policy to attract many

customers that have credit well and better financial situation, but also improved the management of receivable.

Figure 4.15 activity ratio 2



Generally speaking，the total assets turnover means how much revenue receive through using total assets， the higher ratio is mean the better performance， and company generated more revenue in per unit of assets. According to figure 4.14, it is obvious to see AMAZON had relatively large ratio. Therefore, it can be indicated AMAZON had a high degree of efficiency.

In total，according to the receivable days，receivable turnover and total assets turnover，AMAZON had a good performance， which means the solvency of AMAZON was better than ALIBABA in 2015.

4.3 Profitability assessment overtime

In this part, we broke down return on assets to many ratios and use the method of gradual change to calculate from 2012 to 2015 as well as the competition AMOZON, and it can help us to observe which component had big influence to return on assets. Then gave the recommendation and see under what situation company can keep the advantage or be better.

4.3.1 Decomposition of ALIBABA from 2012 to 2013

Table 4.9 Value of each item in decomposition of ALIBABA for 4 years and competition.

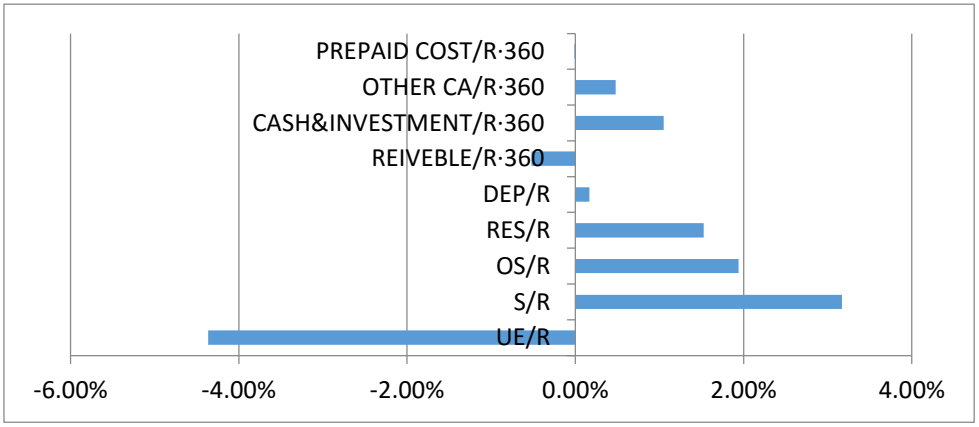
	2012	2013	2014	2015	AMAZON
Return on assets	10.47%	16.74%	22.23%	8.89%	3.41%
Return on sales	24.69%	30.44%	47.24%	29.81%	2.09%
Assets turnover	42.42%	54.11%	47.07%	29.83%	163.51%
UE/R	1.03%	11.32%	0.31%	0.78%	
S/R	26.31%	18.84%	16.69%	21.41%	19.07%
OS/R	32.73%	28.16%	25.46%	31.28%	0.16%
RES/R	14.47%	10.87%	9.7%	13.99%	11.72%
DEP/R	0.77%	0.38%	0.6%	2.72%	3.52%
Fixed assets turnover	347.16	215.1	299.74	535.36	97.46
Receivable/R·360	25.06	51.94	110.04	52.17	21.6
Cash and Investment/R·360	401.56	347.46	310.5	595.24	66.6
Other current assets/R· 360	73.85	49.11	43.31	19.52	
Prepaid cost/R ·360	1.08	1.65	1.25	4.42	34.5

Table 4.10 the influence of each item after gradual change

	2012-2013	2013-2014	2014-2015	AMAZON-ALIBABA
Return on assets	6.0%	5.8%	-13.34%	5.5%
Return on sales	2.4%	9.1%	-8.2%	45.33%
Assets turnover	3.6%	-3.3%	-5.14%	-39.85%
UE/R	-4.4%	6.0%	-0.22%	
S/R	3.17%	1.2%	-2.22%	-3.8%
OS/R	1.94%	1.5%	-2.74%	-50.9%
RES/R	1.5%	0.6%	-2.02%	-3.7%
DEP/R	0.17%	-0.1%	-1.01%	103.7%

Fixed assets turnover	2.6%	-2.8%	-2.74%	-17.7%
Receivable/R·360	-0.5%	-1.9%	0.67%	-1.2%
Cash & Investment/R·360	1%%	1.2%	-3.31%	-21.4%
Other current assets/R· 360	0.5%	0.2%	0.28%	
Prepaid cost/R ·360	0.0%	0.01%	-0.04%	0.4%

Figure 4.16 the influence of factors



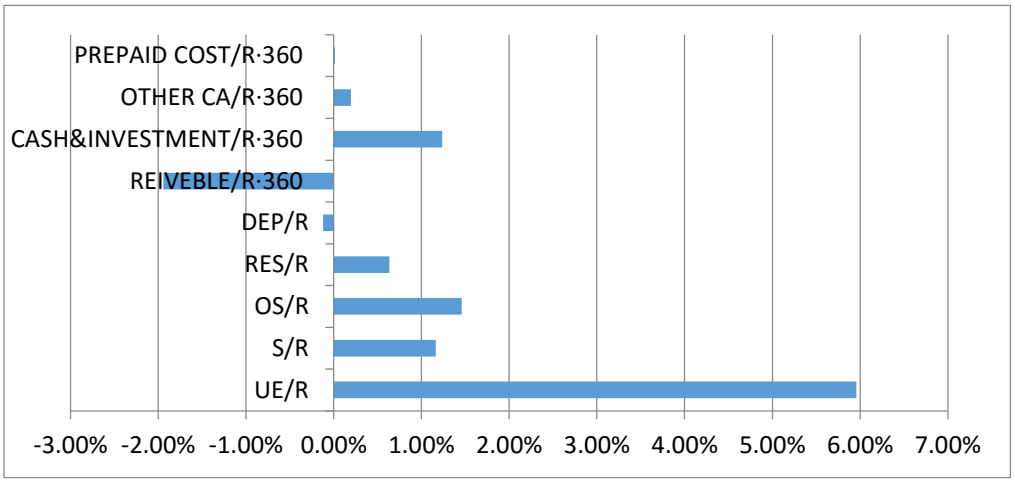
In the table 4.10， it used the branch form of gradual change method to decomposed the ROA (return on assets), and we can find the ROA（return on assets）was influenced by ROS (operating profit divided by revenue），assets turnover（revenue divided by total assets），and then the ROS and asses turnover as well divided by C/R（cost divided by revenue）and A/R·360（total assets divided by revenue and multiply 360）. In the end, the ratio C/R and A/R·360 continues to separate many ratios，which influenced the change of C/R and A/R·360.

According to the figure 4.16，it is obvious that return on assets（ROA） is 6% in 2013 and higher than that in 2014. Analyzing within the decomposition， we can see the resulted be caused by three mainly ratios， the UE/R（unusual expense divided by R）had influence of 4.36% negatively, the S/R（selling and administrate divided by revenue）as well effect 3.17% negatively， and C&I/R·360（cash and short-term investment divided by revenue and multiply 360）had 1% positive influence. It reflects that, ALIBABA in 2013 did not control cost well, and spend relatively higher unusual expanse than 2012. On the other hand， the cash and short-term investment as well as selling and administrate were higher than 2013,

which illustrate the use efficiency of cash and short-term investment was lower, selling and administrate were relatively lower in 2012.

4.3.2 Decomposition of ALIBABA from 2013 to 2014

Figure4.17 the influence of factors

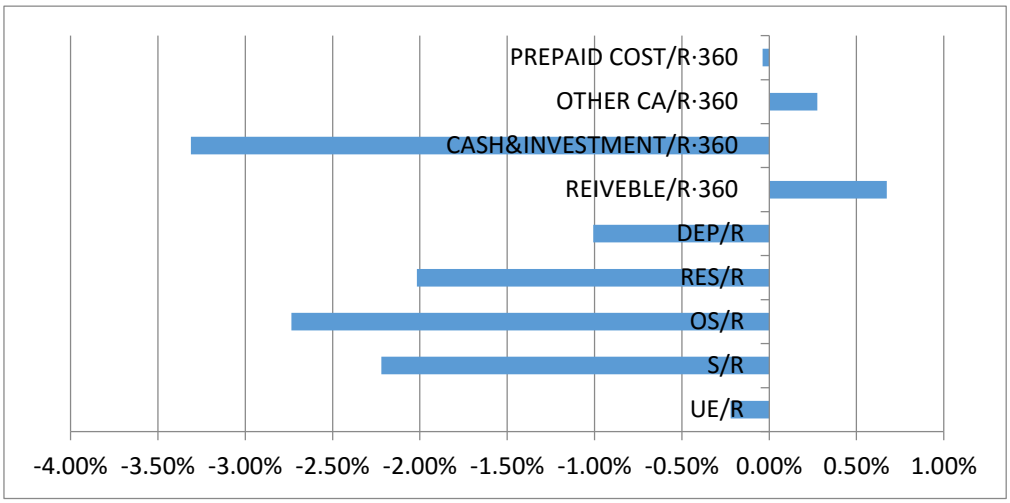


As shown from table 4.10, ROS（operating cost divided by revenue）was influenced 9.09% positively by C/R（total cost divided by revenue）. A/R·360（total assets divided by revenue and multiply 360 days）affected 3.3% negatively by two ratios， the negative 2.8% of FA/R·360 (fix assets divided by revenue then multiply 360days)，the negative 0.5% of UE/R（unusual expense divided by revenue）. Then C/R and FA/R·360 separate some ratios.

On the basis of result，It is obvious to see from figure 4.17，the ROA in 2014 was higher by 2013. Conducting the financial analysis within decomposition，there are two main ratios influenced ROA, UE/R (unusual expense divided by revenue) had influenced of 6% positively, Receivable/R·360 (receivable days) influenced 2% negatively. For the UE/R (unusual expense divided by revenue), the main reason caused result is the unusual expense decreased significantly in 2014, which reflects ALIBABA decreased more cost which caused by external and un-normal factor, just like disaster. For the receive days (Receivable/R·360), the ratio had grown in 2014, which illustrates ALIBABA needed more time to transfer receivable into cash.

4.3.3 Decomposition of ALIBABA from 2014 to 2015

Figure4.18 the influence of factor

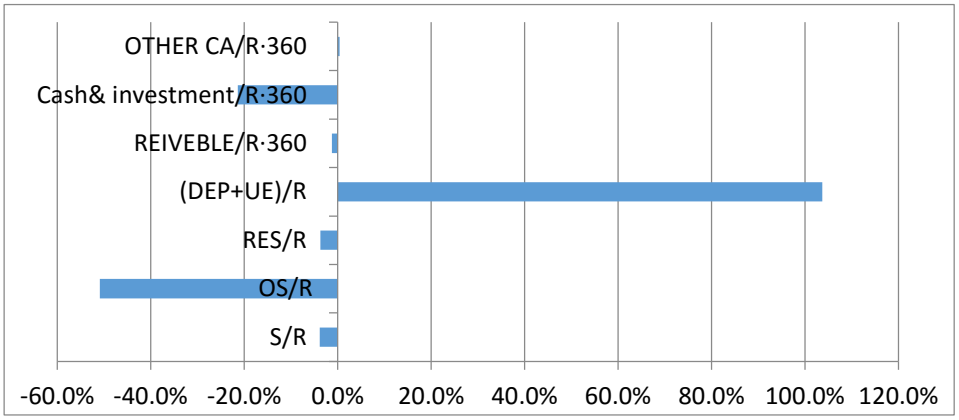


According to table 4.10, by the comparison between 2014 with 2015 and previous analysis, although the total revenue and total assets have grown, but the absolute influences of ROS and assets turnover were negative 8.2% and 5.14%, which means that the growth trend of total cost and total assets were higher than the trend of revenue. It illustrates the assets management in 2014 was relatively efficient.

It is obvious to see from figure 4.18, the ROA in 2015 was lower than 2014, and there are three important ratios have large influence in ROA. OS/R (cost of sales divided by revenue) affecting 2.74% negatively, S/R (selling and administrate divided by revenue) by 2.22% in negative way as well. In the components of assets, and C&I/R· 360 (cash and short-term investment divided by revenue) have 3.31% influences negatively. It illustrates spend more cost in selling and administrate as well as cost of sales. For C&I/R· 360 (cash and short-term investment divided by revenue), ALIBABA also had dropped, and illustrated the use efficiency of the cash and short-term investment was low in 2015.

4.3.4 Decomposition with comparison in 2015

Figure 4.19 influence of comparison in 2015



According to figure 4.19 and table 4.10，the influence of ROS（operating profit divided by revenue）in ALIBABA was 45.3% positively. However， the influence of assets turnover was by 39.8% in the negative way，which reflected the REVENUE in AMAZON had perfect performance than ALIBABA in 2015. But in the assets turnover, AMAZON is bigger than ALIBABA about 40%, it reflects AMAZON used total assets efficiency and earns more revenue than ALIBABA.

As is shown in figure 4.19，there are two main ratios caused the ROA（return on assets）of ALIBABA is by 5.5% higher than that ROA of AMAZON. The first are percentages of which depreciation and unusual expense divided revenue（DEP&UE/R）affected 103.7% positively， and the influence was significant higher than the others ratios, Which illustrated ALIBABA had good performance to keep depreciation and unusual expense minimum. The second is C&I/R·360（cash and short-term investment divided by revenue and multiply 360）had 21% influence negatively. It can be illustrated， though ALIBABA had relatively better management of cost， but in terms of assets， AMAZON also had better management than ALIBABA.

4.4 Decomposition of ALIBABA after recommendation

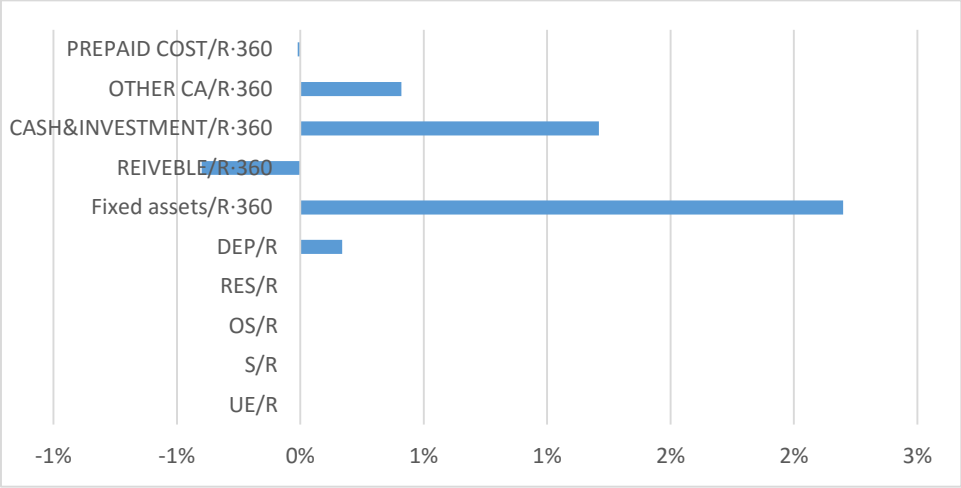
The recommendation is the proportion of the components of cost or assets equal to previous year, and then use amount of changed compare with the amount in last year. Finally, give the suggestion how many amounts the company have few influence with previous year, and keep the advantage.

Table 4.11 the influence of each item after gradual change after recommendation

	2012-2013	2013-2014	2014-2015	AMAZON-ALIBABA
Return on assets	3.51%	-1%	-8.8%	-2.7%
Return on sales	0.21%	0%	0.2%	0%
Assets turnover	3.3%	-1%	-8.6%	-2.75%
Fixed assets turnover	2.2%	-1.9%	-4.13%	-1.3%
Receivable/R·360	-0.4%	-1.3%	1.01%	-0.1%
Cash and Investment/R·360	1.2%%	2.1%	-5.85%	-1.36%
Other current assets/R· 360	0.4%	0.1%	0.42%	
Prepaid cost/R ·360	0.0%	0.0%	-0.06%	0.0%

4.4.1 Decomposition of ALIBABA after recommendation（2012-2013）

Figure 4.20 the influence after recommendation

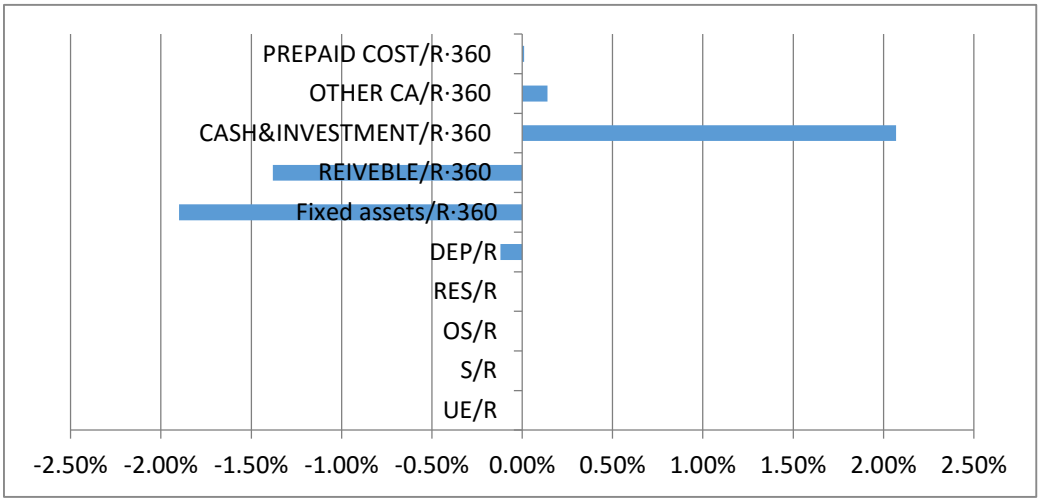


According to the figure 4.19 and table 4.11，we can see obviously，the influence of ROS (return on sales) is close to 0% after recommendation， at the same time， the assets turnover decrease as well. Finally， the influence of return on assets decreases with the change of influence of ROS and assets turnover.

After recommendation，there also are some items have big influence in return on assets，especially the Fixed assets turnover（fixed assets/R· 360）, which influence 2.2% in positive way. So， under the comparison by the figure before recommendation， ALIBABA had good performance in return on assets and the assets turnover in 2013. So， ALIBABA should keep present advantage or be better.

4.4.2 Decomposition of ALIBABA after recommendation（2013-2014）

Figure 4.21 the influence after recommendation



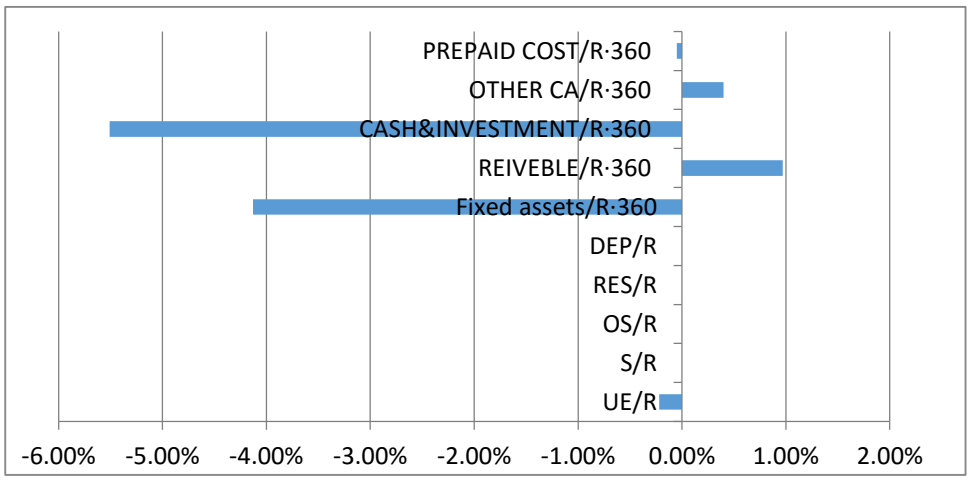
In the figure 4.21 and table 4.11it is apparent that the unusual expense，selling and administrate， cost of sales, research have 0% influence after recommendation. By the comparison with original data，it caused ROS and assets turnover decrease，the influence of return on assets as well be small and close to 0%.

In figure 4.21，it is obvious to see there are two main ratios have important influence after recommendation. The fixed assets turnover（fixed assets / R·360）has 1.9% influence in the negative way, it illustrates the ability of company uses fixed assets to make revenue in

2013 was lower than 2014. The cash and short-term investment has is 2.07% positively, which means the use efficiency of cash and short-term investment improve. To the sum up, ALIBABA had better performance in cost management in 2014, and should maintain present cost advantage. But, in total assets turnover, ALIBABA should improve the efficiency of total assets, especially in fixed assets.

4.4.3 Decomposition of ALIBABA after recommendation（2014-2015）

Figure 4.22 the influence after recommendation



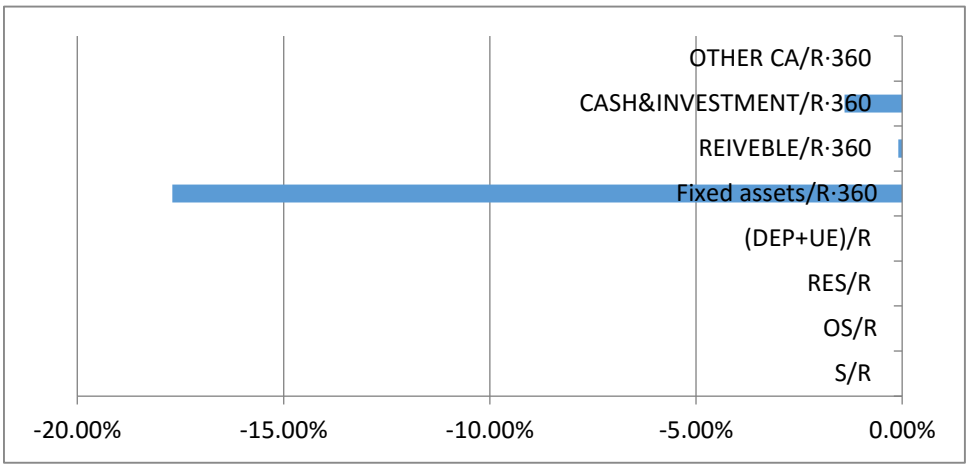
In the original data，the influences of selling and administrate，research，cost of sales had important influence in ROA. So，in figure 4.22 and table 4.11，we input recommendation of these four factors, and then it is clear to see the influence of four factors changed into 0%，which means the return on sales and return on assets increased. In the figure, though the influence of assets turnover decreased, but the ROA still increase.

In figure 4.22，it is obvious to see the fixed turnover（fixed assets / R·360）, cash and short-term investment are two main ratios have important influence after recommendation. The fixed assets turnover（fixed assets / R·360）has 4.13% influence in the negative way, it illustrates the ability of company uses fixed assets to make revenue in 2013 was lower than 2014. The cash and short-term investment has negative 5.51% as well. Consequently, the management of total cost and the assets turnover in 2015 was not good, ALIBABA must control total cost, and maintain to the minimum. For the assets turnovers, the company have

to improve the efficiency of assets turnover, otherwise the profitability of ALIBABA will be worse，and lose competitive in same industry.

4.4.4 Decomposition with competition after recommendation in 2015

Figure 4.23 influence after recommendation



According to figure 4.23，we can find the fixed assets turnover is 17.7% negatively，and have the most influence in return on assets after recommendation. It reflects AMAZON had good performance than ALIBABA in the management of total assets，especially in fixed assets.

Therefore, ALIBABA should keep the present advantage of total cost and improve the ability to earn revenue. But，in the side of total assets，ALIBABA should improve the use efficiency of fixed assets as well as the cash and short-term investment.

5. Conclusion

In the thesis，we used three financial methodologies to assess the financial situation of ALIBABA from the main financial statements. According to the three financial methodologies，we obtained the health of company. Generally，the assessment is used by some different type of profession, it is also influenced their behavior. For the manager，it can help them to make better decision on the improvement to company. For the investor，they can accord to the assessment to decide whether it is suitable for investors. For the creditor，according to the assessment，they can judge credibility and decide whether they lend money to company.

The thesis has 5 parts，and the goal is to know the financial situation and assess the profitability of company. Each chapter has their own function and also be used in others chapters. The main chapters are the chapter 2，chapter 3 and chapter 4.

In the second chapter，it is theoretical part. We described in great detail of three financial statements，financial ratio，common size analysis and DuPont analysis. At the beginning, we introduced the balance sheet, income statement and cash flow，and distinguish some items of each statement. Then is financial ratio which is consisting of five ratio，and we described formula and effect of main four ratios（liquidity ratio，solvency ratio，activity ratio and profitability ratio）. Thirdly, we introduced the two type methods of common size analysis，horizontal common size analysis and vertical common size analysis. In the end，we described the definition of DuPont analysis and the introduction to the four method of influence quantification.

In the third chapter，we introduced the profile of ALIBABA group，and used two type methods of common size analysis. According to the balance sheet and income statement，we used the horizontal common size analysis to described and assessed the changing trend of some significant items in each statement，and we can find the number of total assets，equity and liability have grown from 2012 to 2015. Not only that，the revenue also increased significantly from 2012 to 2015，though total cost raised as well，but it had few influences

on the increase in net income, it reflects the business of ALIBABA expends continually to attract more customers. Through the vertical common size analysis in the balance sheet， we found the current assets cover the large proportion than fixed assets，which means ALIBABA used more current assets into production. The equity and long-term debt have large proportion in equity and liability, so，it illustrates ALIBABA financed capital to transfer into assets to production mainly through the equity and long-term debt.

In the fourth chapter, we used financial ratio and DuPont analysis to assess the ALIBABA and the comparison with its competition AMAZON. Firstly, we calculated financial ratios and observed the profitability had overall increased from 2012 to 2014，but it regressed into 2015. For liquidity，ALIBABA the trend of current ratio，quick ratio and cash ratio is up during 4 years，which means abilities of ALIBABA pay off short-term liability improved. According to solvency ratio， the debt ratio and debt-equity ratio decreased from 2013 to 2015，which reflects the solvency ability improve. About activity，according to the receivable days and turnover，the ratios of 2012 was the best in 4 years，because with the development of ALIBABA as well as the number of clients， some customers have low creditability and caused ALIBABA need more time to receive cash back. By the comparison with AMAZON，though the ROA of ALIBABA is better than AMAZON，but after DUPONT analysis， we can find ALIBABA had good performance in cost management than AMAZON. However，the ability of AMAZON to use assets to create revenue is more efficient than ALIBABA.

ALIBABA was the one of the biggest electric commerce company in the world, with the development of internet on global and convenient for our daily life. There are more and more Chinese people and foreigner glade to use the product of ALIBABA. Though the ALIBABA also has some shortages, but ALIBABA has spirit of exploration and will overcome weakness. Finally, with Chinese economic development, Chinese government began with the economic in transition. On the other hand, China will implement policy that encourages the development of high-technology enterprises. ALIBABA should catch the opportunity and continue to create more products people prefer.

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List of Abbreviation

OPM：operating profit margin

NPM：net profit margin

EBIT：earn before interest and tax

UE：unusual expense

OS：cost of sales

RES：research

DEP：depreciation

C&I：cash and short-term investment

S：selling and administrate

CA：current assets

FA：fixed assets

NYSC: New York stock exchange

CNY: Chinese yuan (currency)

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Ostrava dated: 6.5.2016

CHEN JI

Student's name and surname

List of Annexes

Annexes 1: Balance sheet of ALIBABA

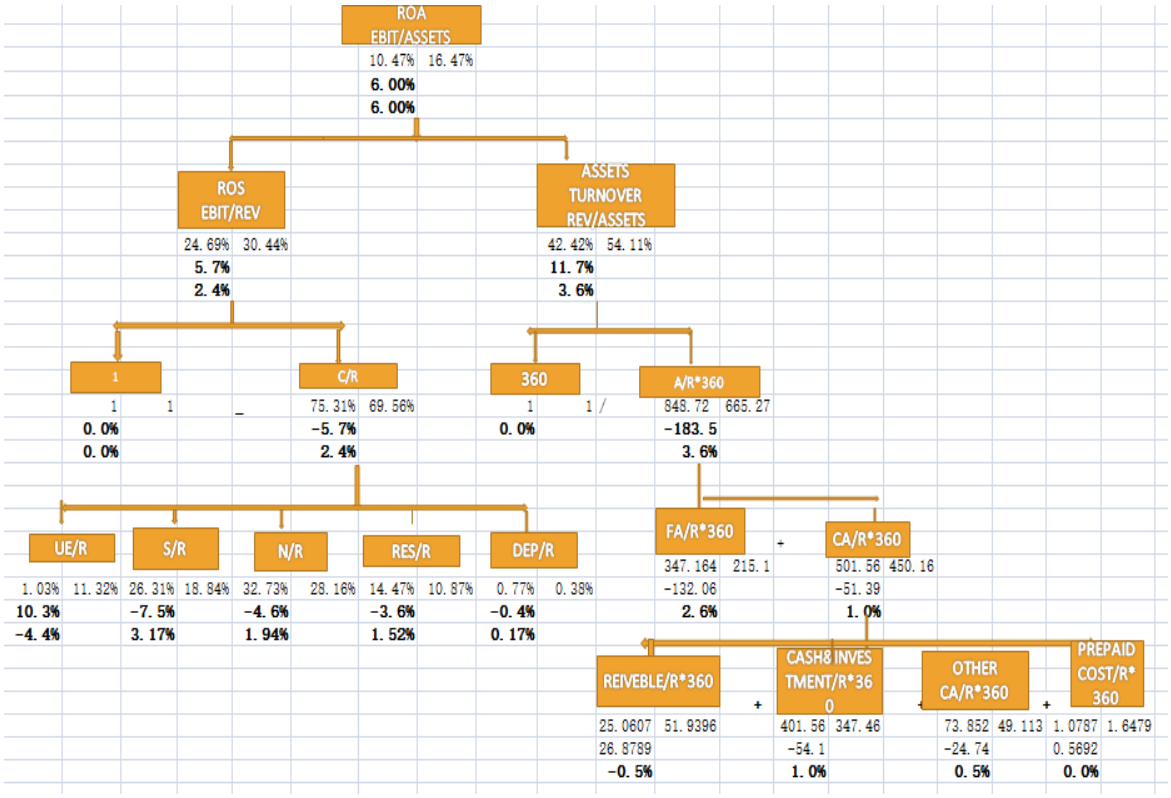
	03/2015	03/2014	03/2013	03/2012
Cash and equivalent	108193	33045	30396	16857
short term investment	17806	12240	2919	5480
cash and short term investments	125999	45285	33315	22337
total receivables, net	11043	16049	4980	1394
prepaid expenses	935	183	158	60
other current assets, total	4132	6316	4709	4108
total current assets	**142109**	**67833**	**43162**	**27899**
property/plant/equipment, total net	9139	5581	3808	2463
goodwill, net	41933	11793	11294	11436
intangibles, net	6575	1906	334	355
long term investments	48488	20689	1797	1890
note receivable-long term	534	503	345	136
other long term assets, total	6656	3244	3046	3031
total non-current assets	**113325**	**43716**	**20624**	**19311**
total assets	**255434**	**111549**	**63786**	**47210**
Accounts payable	927	300	400	754
payable/accrued	10472	6370	3861	2222
accrued expense	6377	3412	3098	1047
notes payable/short term debt		9264	2098	
capital leases	1990	1100	3350	1283
other current liabilities, total	19906	16938	11188	6445
total current liabilities	**39672**	**37384**	**23995**	**11751**
total debt	52593	41075	33101	1283
long term debt	50603	30711	27653	
Deferred Income Tax	4493	2136	643	413
Minority Interest	11974	1079	537	2895
Other liability, TOTAL	2595	500	449	633

total non-current liabilities	**69665**	**34426**	**29282**	**3941**
total liabilities	**109337**	**71810**	**53277**	**15692**
redeemable preferred stock, total		10284	10447	
preferred stock-non redeemable, net	658	117	86	30
common stock, total	1	1	1	1
additional paid-in capital	117142	27043	21655	20778
retained earnings	27557	3657	-19154	13648
treasury stock-common				
ESOP Debt guarantee				
Unrealized gain(loss)	3397	321	-8	1
other equity, total	-2658	-1684	-2518	-2940
total equity	**146097**	**39739**	**10509**	**31518**
total liabilities and shareholders, equity	**255434**	**111549**	**63786**	**47210**

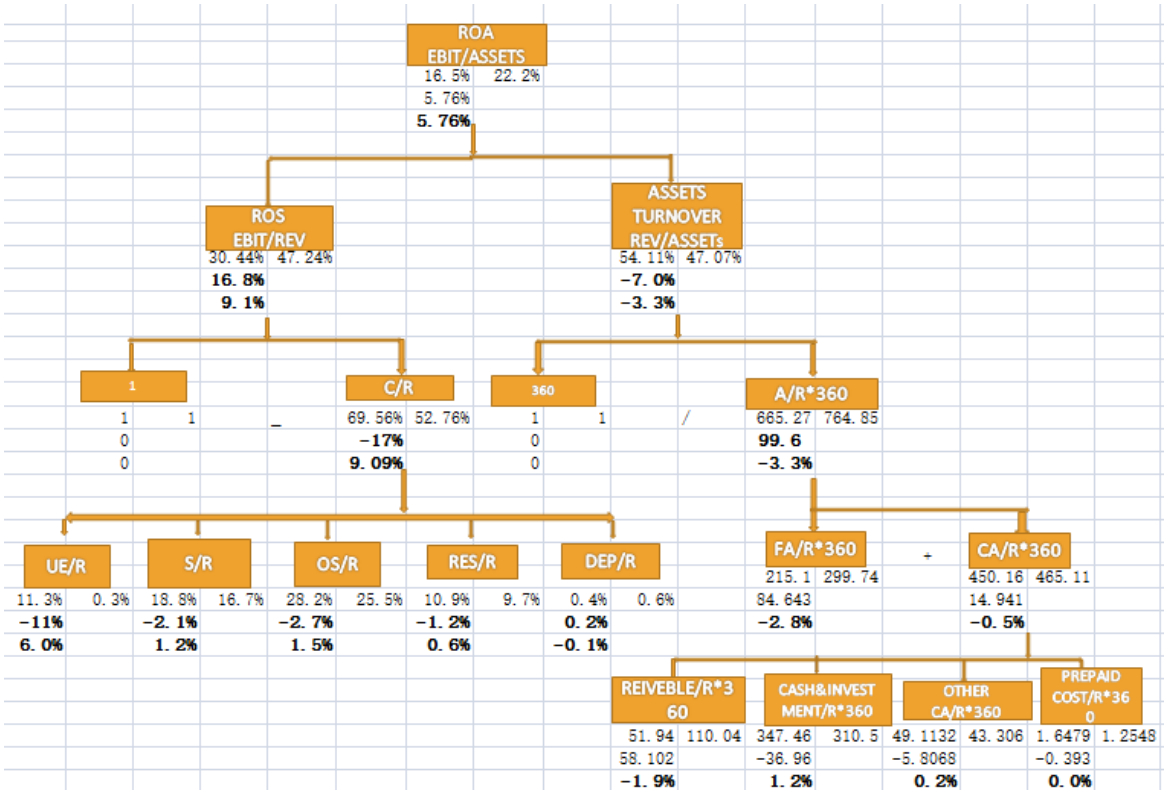
Annexes 2: Income statement of ALIBABA

total revenue	**76204**	**52504**	**34517**	**20025**
cost of revenue	23834	13369	9719	6554
gross profit	52370	39135	24798	13471
Selling and administrate	16313	8763	6502	5269
research development	10658	5093	3753	2897
depreciation/amortization	2089	315	130	155
unusual expense(income)	594	163	3907	206
cost of revenue	23834	13369	9719	6554
total operating expense	**53488**	**27703**	**24011**	**15081**
operating income	**22716**	**24801**	**10506**	**4944**
net non-operating and gain(loss)on sale of assets	7124	-428	-1288	261
other, net	2486	2429	894	327
income before tax	**32326**	**26802**	**10112**	**5532**
provision for income taxes	6416	3196	1457	842
income after tax	**25910**	**23606**	**8655**	**4690**

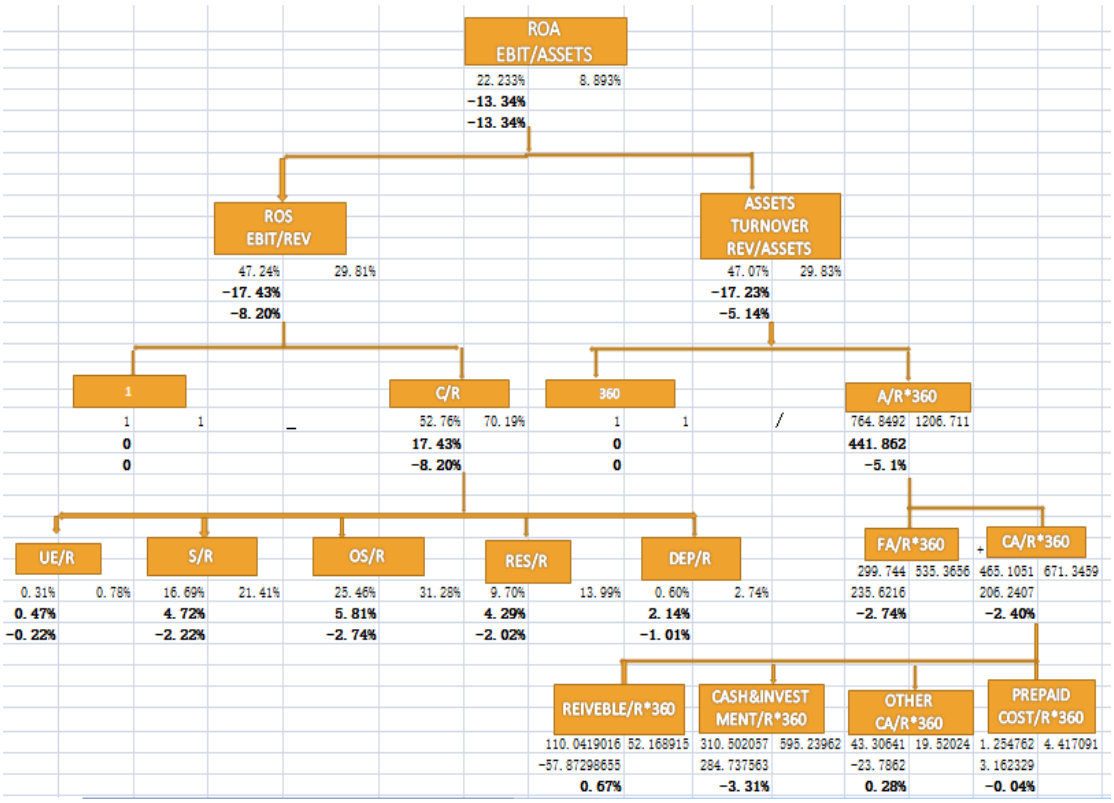
Annexes 3: Decomposition of ALIBABA (2012-2013)



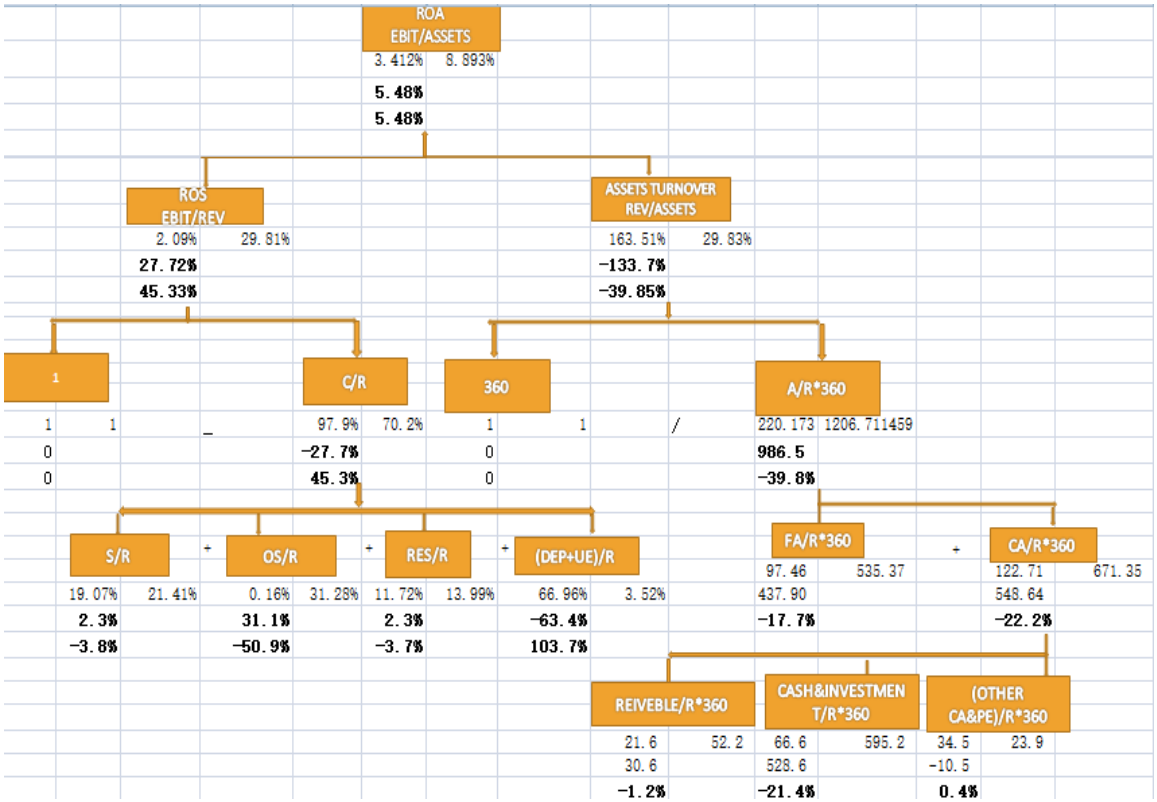
Decomposition of ALIBABA (2013-2014)



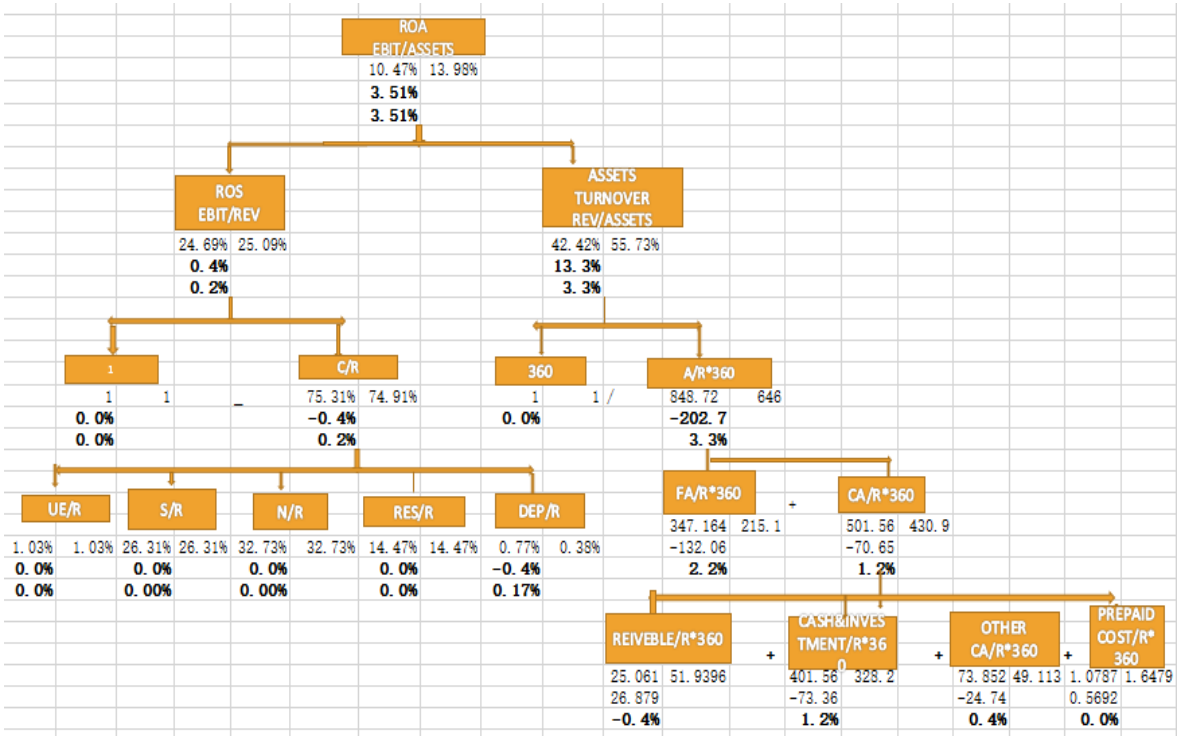
Decomposition of ALIBABA (2014-2015)



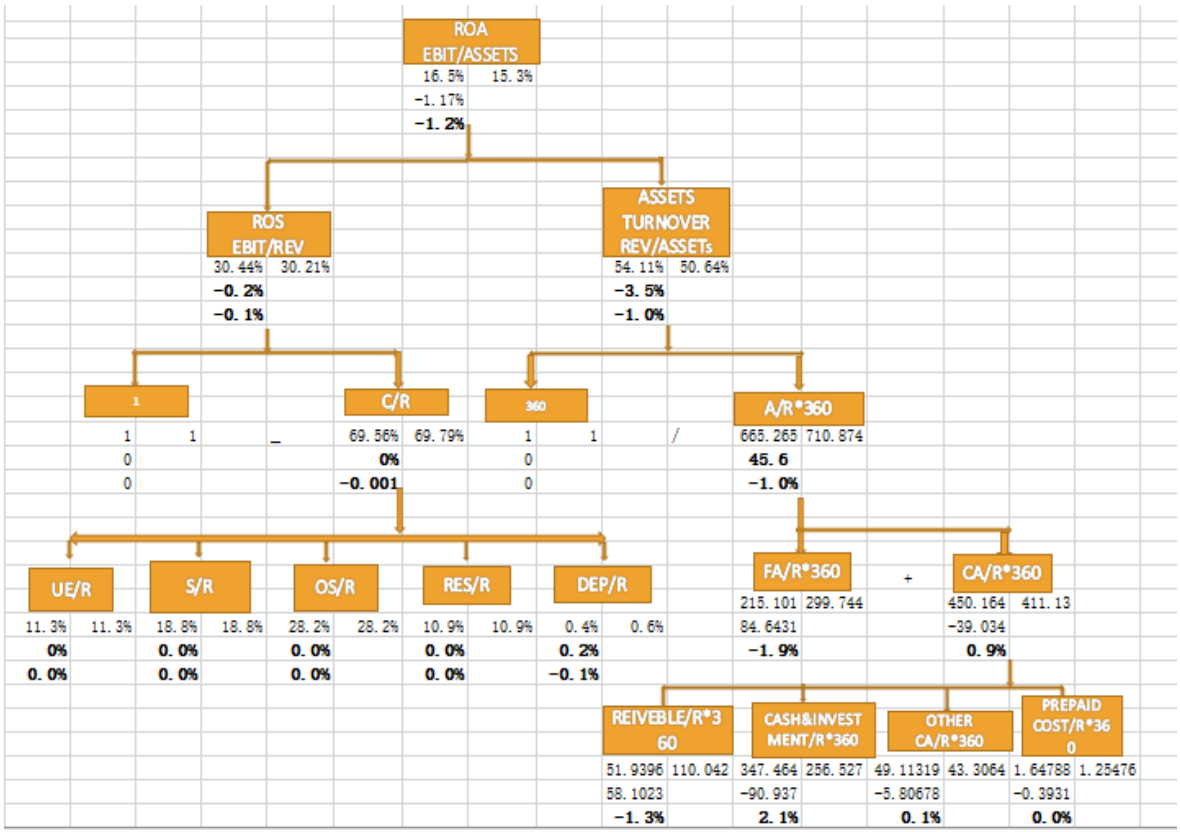
Decomposition with competition in 2015



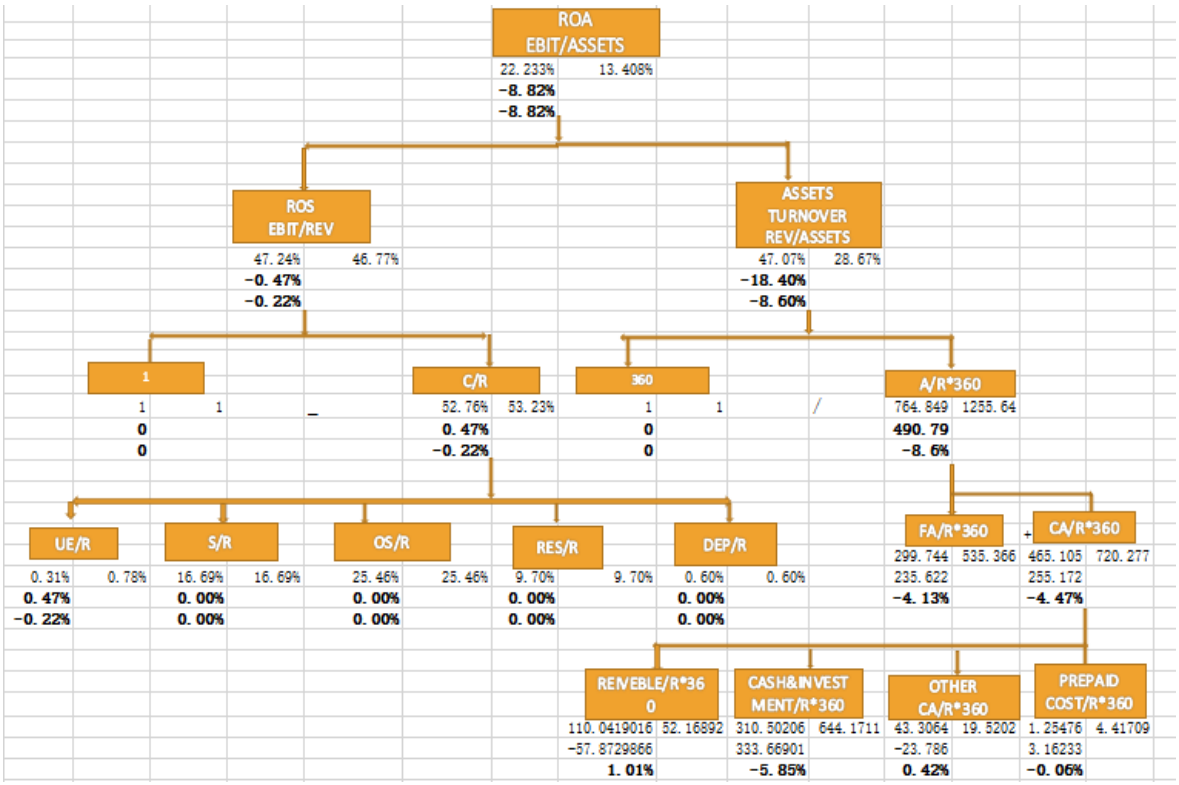
Annexes 4: Decomposition of ALIBABA after recommendation (2012-2013)



Decomposition of ALIBABA after recommendation (2013-2014)



Decomposition of ALIBABA after recommendation (2014-2015)



Decomposition with competition after recommendation in 2015